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World Business Newspaper http://www.FT.com MONDAY OCTOBER 27 1997

WORLD NEWS

Minister warns of slump as Japanese retail sales fall again

Fresh signs of weakness in Japanese consumer demand emerged after department store sales fell in September for the sixth successive month. A government minister argued that last week's economic stimulus package would be inadequate to prevent the economy falling into a slump. Page 18

Go-ahead for Chad project
An international consortium has decided to go ahead with a controversial oil development in Chad provided the World Bank agrees to play a direct role in the proposed $3bn project. Page 4

Yugoslavia debt talks
The London Club of international banks indicated that the door was still open for debt talks with Yugoslavia despite the country's deputy prime minister saying negotiations had collapsed. Page 2

Mexican banker escapes
A senior Mexican banker who was under house arrest while authorities investigated the collapse of Banca Confia, Mexico's eighth largest bank, absconded from his home hours before he was to be charged with fraud. Page 6

EU olive branch for Turkey
The European Union is to seek to repair links with Turkey amid fears that differences over Cyprus could destabilise EU ambitions to enlarge to the east. Page 2

Thai king seeks early reforms
King Bhumibol Adulyadej urged Thailand's new cabinet to complete constitutional changes quickly, virtually ensuring that new elections will be held early next year. Page 3

Russian minister in Israel
Russian foreign minister Yevgeny Primakov arrived in Israel in the hope of arranging a dialogue between Israel and Iran, crucial for peace negotiations with Syria. Page 7

Commonwealth charter
The Commonwealth summit in Edinburgh, Scotland, endorsed its first economic charter committing the 54-nation body to free market principles. Page 4

Asia fund to be set up
India and Pakistan are to become the biggest government donors to a new Commonwealth investment fund for south Asia. Page 4

Argentines go to polls
Argentine voters went to the polls to elect half of the congressional lower house. Page 6

Ontario teachers set to strike
Ontario's 126,000 teachers were expected to begin an illegal strike today in a battle with the government to determine who will oversee reform of the province's education system. Page 6

Jamaica pulls out of treaty
Jamaica is pulling out of a United Nations human rights treaty that allows prisoners on death row a final right of appeal to a UN committee. Page 3

Panama drugs haul
Panamanian police seized 13 tonnes of marijuana hidden on a Norwegian-flagged container ship bound for Venezuela.

Aids threat to Asia
Asia will overtake Africa in a few years as the region worst-hit by the virus that causes Aids, the United Nations said.

Spectacles restore tints
Two Hungarian scientists spent 13 years developing spectacles which they say will restore colour vision to colour-blind people. Page 18

BUSINESS NEWS

Vickers poised to seek buyer for Rolls-Royce Motor Cars

Rolls-Royce Motor Cars is set to be put on the market soon by engineering group Vickers – and BMW could well lead contenders for the UK luxury carmaker. The German group already makes engines for Rolls-Royce and Bentley cars and has said it would be interested in buying the company if it came up for sale. Page 19

Deutsche Termin Börse, Germany's leading derivatives exchange is to launch a futures contract based on the mortgage-bond market as part of its drive to win business from the dominant London International Financial Futures and options Exchange. Page 19

Honda Motor of Japan expects to build a third car range at its south west England plant rather than in continental Europe - though the move is not expected to be announced until the new year. Page 8

Robert Fleming, UK-based investment bank, is negotiating for a new City of London headquarters site for which it will pay £50 a square foot, the highest rent set in the City since 1990.

British Airways could face legal action by UK cut-price carrier EasyJet if it sets up a rival no-frills operation. EasyJet chief Stelios Haji-Ioannou believes such a move would be an abuse of BA's dominant market position. Page 19 ; Lex, Page 18

European Union energy ministers could today decide the future of the region's $100bn-a-year gas market when they try to agree on plans to break national monopolies and encourage competition. Page 2

Smart, the 2.5 metres long, joint venture two-seater car by Mercedes-Benz and Switzerland's SMH watches group, goes into production officially today when the Micro Compact Car plant at Hambach, eastern France, is opened. Page 20 ; Swatch Watch King at the wheel, Page 10

Irish tax row: Ireland is at odds with the European Commission over Brussels' attempts to intervene in setting national corporate tax rates. Dublin fears being forced to raise its low tax rate in line with other EU countries. Page 2

Obrum of Poland has been invited by Britain's defence ministry to tender for a contract which could lead to it making specialist tanks for the army. Obrum is competing with Vickers and GKN Defence, which has teamed with MAK of Germany. Page 8

Liberty: The Stewart-Liberty family, founders of the Regent Street, London, store famed for its fabrics, have joined Brian Myerson, once their fiercest critic, to try to depose Liberty's chairman. Page 20

Granada Group, UK leisure and media company, could decide to sell a minority stake in its Granada Sky Broadcasting pay TV arm in an effort to improve investors' perception of the loss-making venture. Granada owns 60 per cent of GSkyB, with the rest held by satellite broadcaster British Sky Broadcasting. Page 20

French working hours: France will not try to convince its European partners to copy its 35-hour work week model at next month'a jobs summit, European affairs minister Pierre Moscovici said on French radio. "Each country has its own way of doing things", he said.

Public rushes to buy stake in Telecom Italia privatisation

By James Blitz in Rome

The Italian government's privatisatioo programme received a significant boost at the weekeod after it emerged that more than 2m people had applied to purchase shares in the public offer of Telecom Italia.

At the eod of the largest single privatisatioo ever carried out in Europe, the Treasury anoounced that the retail offer of its stake in Telecom Italia had heeo more than four times subscribed by Italian citizens.

The stroog response from retail investors was not matched by institutions, however. The Treasury said the iostitutional tranche of the offering had beeo only 1.4 times subscribed, indicating relatively subdued demand.

The level of interest shown in the offer by members of the Italian public immediately led the Treasury to more than double the number of shares that will be covered io the retail sale to 1.45bo.

The size of the institutional offer will be correspondingly reduced to a minimum of 55m shares, well below the 800m originally requested by applicants.

"Demand has far exceeded all our expectations," said Mario Draghi, the director-geoeral of the Italian Treasury, who has master-minded the operation. "We are especially pleased with the applications from retail investors."

The completion of the sale of the Treasury's 44.7 per cent stake in Telecom Italia will have a considerable impact on the governmeot's finances, yielding a total of L26,000bn ($14.9bn) from the offer to retail, institutional and strategic shareholders.

The Treasury announced at the weekend that receipts would allow it to reduce the scope of bond issues in forthcoming months to meet the country's deht.

Fewer auctions for governmeot bonds are expected.

Officials connected with the privatisatioo stressed that retail interest in the sale augured well for future privatisations, despite opposition from the country's Communists.

"You had 2.1m people applying for shares in Telecom Italia compared to 2.3m in the first British Telecommunications sell-off in 1984," said one official.

"But each investor in Telecom Italia would have had to stump up a minimum of L11m (£3,880) for their shares, compared to £300 for BT."

Pierluigi Bersani, one of the ministers closely involved in the privatisation, went on to suggest that the conclusion of the Telecom Italia operation meant that next year the government could "start plans to privatise Eoel", the state electricity conglomerate.

However, the governmeot is now turning to a far trickier list of state-owned institutions to sell off in the near future. Iri, the state holding company, is today expected to confirm its plans to sell its minority stake in Banca di Roma, which incurred a record L2794bn first-half loss earlier this year.

Iri is also setting about a complex refinancing and restructuring of Finemeccanica, the state-controllad industrial conglomerate, which reported first half losses of nearly L2,000bn for the first six months of this year.

Finmeccanica plan, Page 22

Canadian Jacques Villeneuve celebrates with Williams team pit crew after clinching the Formula One drivers' world championship in Spain yesterday. Last year's US IndyCar winner finished third in the European Grand Prix in Jerez, but that was enough to give him the title ahead of Michael Schumacher, who spun off the track Reuters

Asian markets face week of turbulence

By John Ridding in Hong Kong and Richard Waters in New York

Asian financial markets are braced for a turbuleot week as continued concerns over Hong Kong's currency, regional economic prospects and a sharp fall on Wall Street last Friday combine to undermine confidence.

Despite a rebound in Hong Kong, where a plunging stock market last week triggered a wave of selling on international exchanges, investment analysts viewed the recovery as fragile. Many pointed to the possibility of further attacks against the Hong Kong dollar and a sustained rise in interest rates to defend the currency, the last in the region to be pegged to the US dollar.

"Friday was a lull in the fighting," said John Mulcahy, managing director of Indosuez WI Carr. "I think it would be naive to assume it is all over."

Pressures on the Hong Koog corporate sector resulting from the crisis were evident in yesterday's announcement by Great Eagle, the property developer to cancel a HK$1.08bn (£140m) rights issue. However, the company said it would proceed with a planned deal to acquire hotels in the US, raising HK$1.08bn through a share placement.

Stock market conditions have also prompted two mainland companies to postpone Hong Kong flotations – China National Aviation Corporation cancelled a HK$1.1bn issue and Yanzhou Coal Mining said it would delay its planned listing.

International markets, already clouded by doubts over a continued bull run, are increasingly focused on Asia. Despite a 4 per cent fall in the Dow Jones Industrial Average late last week, most Wall Street analysts expect any further disruption to be limited.

A series of financial crises in Asia has prompted a downturn in growth, threatening the earnings of multinational companies in the region, whila devaluations have reduced prospects for exports to the south-east Asia.

Attention is expected to focus on Hong Kong, which has seen its stock market fall by a third since its August peak and which last week fell by 18 per cent. "Selling pressure is expected to remain," said ING Barings.

Global Investor, Page 24
Markets, Page 25
Bonds, Page 26

Brown to set out UK measures for Emu

By Robert Peston and David Wighton in London and David Owen in Paris

The British government will today outline measures to prepare sterling for membership of a European single currency after the next general election.

In an eagerly-awaited statemeot to parliameot, Gordoo Brown, the chancellor of the exchequer, will make a commitment "in principle" that the UK wishes to participate in economic and mooetary union.

He will add, however, that the ecooomic cooditioos must be right and that there is no possibility of the UK being ready to join Emu in the lifetime of the current parliament.

In a separate move, a group of French business leaders will urge Europeans to make themselves ready for the single currency's introduction as soon as possible.

In a self-styled "manifesto for the euro", to be published in today's Le Monde newspaper, more than 30 signatories, who include Jacques de Larosière, president of the European Bank for Reconstruction and Development, and Claude Bébéar, chairman of Axa UAP, the insurance group, will argue that time is of the essence.

"The sooner the technical preparations have been agreed upon and carried out, the greater the benefits will be. The sooner the barriers to euro conversion are removed, the sooner banks and businesses can seize the opportunities for increased growth," the manifesto will say.

In the UK, Mr Brown will attempt to return the government to an even keel after several weeks of buffeting by markets and media over its handling of the Emu decision.

He will attempt to reassure large companies that a decision to participate could be made shortly after the next election, which is due by the middle of 2002 at the latest.

Tony Blair, the prime minister, has acknowledged that the government'a apparent changes of direction over Emn in the past month have been damaging.

"The prime minister accepts the government has taken a knock," said his spokesman, but the government was now "facing up to the toughest choice of this

Continued on Page 18

Broker held after raid on Amsterdam bourse

By Gordon Cramb in Amsterdam

A prominent Dutch stockbroker was being held for questioning last night in a case involving suspected insider trading, fraud and money-laundering, after an unprecedented raid hy justice officials on the Amsterdam stock exchange.

Han Vermeulen, former head of Netherlands operations for the UK's James Capel and now a director of the Dutch brokiog firm Leemhuis & Van Loon, was arrested on Friday night. The move followed a six-month investigation involving alleged misdeeds dating back as far as 1985.

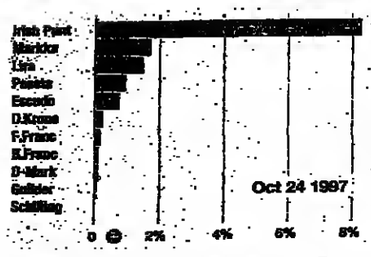
The Amsterdam offices of Capel, owned by Hongkong and Shanghai Banking Corporatioo, were among aeveral locations searched by a team of 200. Authorities in the UK, Switzerland and Curacao, a Dutch Caribbean tax haven, were also involved.

Inquiries are understood to centre oo suspicions of "front-running" – where a broker buys or sells stock for another account before executing a big customer order which would be likely to move the market price of that company.

Prosecutora said they were

Continoed on Page 18

Markets



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

The Irish punt strengthened last week in the European Monetary System to more than 8 per cent above the central rate of the Austrian schilling, from 7 per cent the week before. Currencies, Page 27

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Inside

Jiang comes to town: China's leader visits the US this week Page 17

EU olive branch for Turkey amid worries on Cyprus

By Michael Smith in Luxembourg

The European Union is to launch a diplomatic effort to repair links with Turkey amid fears that differences over Cyprus could destabilise EU ambitions to enlarge to the east.

In the most positive signs yet of improving relations, Hans van den Broek, EU commissioner for foreign affairs, will start a bridge-building visit to Ankara on Thursday, and Jean-Claude Juncker, prime minister of Luxembourg, holder of the EU presidency, will follow next month.

They hope to persuade the Turks to help "create a more positive climate" for talks aimed at resolving the 23-year Cyprus dispute. In exchange they will hold out the prospect of Turkish participation in a European conference being set up next year for aspiring EU members.

At a weekend conference of EU foreign ministers in Luxembourg, Greece expressed vehement opposition to Turkey's participation. The Greeks have threatened to block all enlargement into central and eastern Europe if Cyprus is denied membership.

Military tensions began to rise between Greece and Turkey two weeks ago and culminated in a collision between a Greek and a Turkish warship in the Aegean sea last Thursday.

While other EU states oppose Turkish membership of the EU – at least in the short term – they fear that excluding it from the European conference would risk radicalising Turkey as well as upsetting the EU's plans to admit Cyprus.

Although resolution of the Turkish issue will be difficult, ministers made progress on how to proceed with other aspects of enlargement. Denmark, Spain and others appear to be softening their line that entry negotiations should begin simultaneously with all countries seeking to join, other than Turkey and Slovakia, both of which are viewed as having flawed human rights records.

The Commission is increasingly confident that a summit of EU leaders in seven weeks will back their proposal that accession talks are limited to Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.

That will disappoint Bulgaria, Latvia, Lithuania and Romania, which are also seeking membership. The EU aims to soften the blow by inviting them to join the European Conference, a French idea for an annual congress to which heads of states of all countries seeking membership, including Turkey, would be invited along with their EU equivalents.

Issues for discussion could include foreign affairs, the environment, crime and drugs trafficking. The first meeting is expected to be held in London in February, when the UK will hold the EU presidency.

At the weekend meeting Germany expressed opposition to Turkish participation in the European conference. But it is expected to soften its resistance.

A group of European industrialists led by Percy Barnevik, chairman of the international engineering group ABB, has urged the European Commission to double the number of countries taking part in the next phase of European Union enlargement, Tim Burt writes from Stockholm.

Mr Barnevik said a delegation of business leaders met Jacques Santer, Commission president, last week to express concern at the limited scope of the enlargement proposals, and to deliver a five-point plan to enable more central and eastern European countries to take part.

He said that failure to include countries such as Turkey in the next wave of EU accession talks could damage investment plans and industrial development in the region.

The businessmen who met Mr Santer also called for the membership of international trade bodies such as the European Free Trade Association to be extended to Russia, Ukraine and other former Soviet republics.

Debt talks hope for Yugoslavia

By Kevin Done, East Europe Correspondent

The London Club of international banks indicated at the weekend that the door was still open for a resumption of debt talks with Yugoslavia despite a declaration from Banko Djunic, Yugoslav deputy prime minister, that negotiations had collapsed.

The talks in New York were broken off late on Thursday after the Yugoslav delegation walked out, saying that it had been misled. "We were led to believe there would be a proposal, but no deal was struck," said Mr Djunic.

An early resumption appears unlikely after the acrimonious end to the latest round of negotiations over the restructuring of about $1.939bn of Yugoslavia's debt (including principal and interest) to the commercial banks.

The failure of the talks has left the country financially isolated and with little prospect in the near future of regaining the access to the international capital markets needed to kick-start its beleaguered economy.

As part of the outer wall of sanctions maintained after the Bosnian peace agreement of late 1995, Yugoslavia, comprising Serbia and Montenegro, has been unable to rejoin key institutions including the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development.

Commercial bank debt accounts for about 20 per cent of Yugoslavia's estimated total external debt of more than $10bn. Most is owed to the Paris Club of sovereign lenders and to the World Bank. But Belgrade had made the London Club negotiations a priority, hoping they could pave the way to success on other fronts, especially with the IMF.

The London Club has arranged deals in the past two years with the four other former Yugoslav states – Bosnia-Hercegovina, Croatia, Macedonia and Slovenia. Each has accepted portions of the $4.4bn principal of commercial bank debt left by the disintegration of former Yugoslavia.

It is understood that the latest talks foundered on Yugoslavia's continuing insistence that up to 80 per cent of the debt should be written off.

The international co-ordinating committee of the London Club, led by Chase Manhattan of the US, is insisting that Belgrade, like the other states, should accept its part of the former Yugoslav debt.

But it has made clear that it is willing to make substantial concessions over all other terms and conditions.

EU to discuss gas monopolies

By Neil Buckley in Brussels

The future shape of the European Union's $100bn-a-year gas market could be decided today when energy ministers try to agree on long-stalled plans to break down the power of national monopolies and open the market to competition.

Gas remains a glaring gap in the EU's single market, although liberalisation plans were first proposed in the late 1980s. France and southern states have battled to preserve monopolies, arguing that gas is a strategic resource.

But officials have held intense negotiations on gas since ministers agreed on partial liberalisation of the EU's electricity market in June 1996. Luxembourg, holder of the EU presidency, has called today's meeting in the hope of a breakthrough on the main points.

Some officials are cautious about the chance of agreement, noting that France's new Socialist-led government has not yet discussed the issue at EU ministerial level.

The biggest questions are the extent to which the market would be opened to competition, and which customers would be eligible to shop around for gas. Luxembourg's compromise proposal suggests all gas-fired electricity generators, plus large industrial users consuming more than 25m cubic metres a year, would automatically be eligible across the entire EU.

Individual states would have to broaden the definition of eligible customers, if adopting these minimum criteria did not result in at least 28 per cent of their total gas market being open to competition.

The EU-wide minimum consumption threshold would fall to 15m cu m after five years, and 5m after 10 years, with the minimum percentage of market opening for each state rising to 40 and then 45 per cent.

That would fall behind reality in some states, such as the UK, where the gas market will be 100 per cent competitive from next year, with household customers able to choose suppliers.

But the plan is more ambitious than last year's electricity directive, which liberalised 23 per cent of the power market, rising to 28 per cent after three years, and 33 per cent after six years.

It could face stiff opposition from France, however. Unlike most EU states, France has no gas-fired power generators and would have to allow many more industrial users to choose their gas suppliers in order to meet the minimum percentage of liberalisation.

Two thousand merino sheep flock in front of the Alcala gate in central Madrid – part of a campaign to revive the annual migration of livestock along Spain's ancient cattle paths, some of which go through the heart of the capital Reuters

Brussels irks Irish over tax

By John Murray Brown in Dublin

Differences have emerged between the Irish Republic and the European Commission over attempts by Brussels to intervene in setting national corporate tax rates.

At a meeting of European Union finance ministers on November 5, Charlie McCreevy, the Irish finance minister, is set to oppose any moves by the Commission to win powers to harmonise taxation.

The dispute has arisen during negotiations on a voluntary code of conduct to prevent "unfair" tax competition from disrupting the EU's single market. The issue falls within the sphere of responsibility of Mario Monti, the EU commissioner for the single market.

Dublin has no problem with moves to curb the use of special tax deals aimed at luring investment and siphoning off government revenues from one member state to another. But it is concerned that the Commission will seek to use the *issue to force Ireland to raise* its low rate of tax in line with other EU countries.

The Commission says that it intends to review the code in two years' time against "the background of general taxation levels in the Community". Mr McCreevy is understood to have expressed "alarm" when that phrase appeared in the latest draft of the code two weeks ago.

Dublin upset at Commission 'interference' in setting national corporate rates

"Interfering in the setting of national rates is beyond the remit of the Commission," said a senior Irish official.

Luxembourg, which holds the EU presidency, is anxious to see agreement on the *code before its term ends in* December.

However, Ireland believes that it has considerable support among other member-states, including France and the UK.

Ireland's 10 per cent corporate tax rate runs until 2010 for manufacturing and traded services and 2005 for financial services. It has been vital in attracting foreign investment, which accounts for half of all manufacturing employment, 60 per cent of output and 70 per cent of manufactured exports.

Ireland's defence is that 80 per cent of its foreign investment is from the US and is therefore not displacing jobs within the European Union.

In an effort to provide extra certainty for foreign investors, Dublin has said it will introduce a uniform tax rate of 12.5 per cent after 2010.

However, the area of financial services is more contentious.

When the Dublin docklands centre was opened in 1986, a number of German banks set up tax arbitrage operations – using double taxation agreements to avoid paying German tax.

In 1991, Ireland was the largest target for German capital flight. A number of court cases between German banks and the German federal authorities are still pending.

Because the tax regime falls within the category of state aid, Ireland will have to obtain specific approval from Karel Van Miert, the EU commissioner in charge of competition issues, to extend it.

Mr McCreevy has invited Mr Van Miert, a Belgian, to Dublin for next Wednesday's Ireland-Belgium World Cup football qualifying game, when the two will have another chance to discuss the issue.

French economy reviving

The government is no longer as gloomy as when it took office, reports **Robert Graham**, but there are a few alarm bells ringing

The feel-good factor has yet to permeate France, but the economy shows every sign of being on an upswing.

If present trends continue during the final quarter, the economy will achieve growth of 2.3 per cent this year. The government of Lionel Jospin, the prime minister, is already saying its 3 per cent growth projection for 1998 looks conservative.

The government's optimism about growth and about the public accounts contrasts sharply with its gloomy forecasts on taking office after its surprise election victory in June.

It is now evident the Jospin administration understated the pick-up in growth which had begun in the first quarter under the previous centre-right government. The special July audit ordered by Mr Jospin was overly pessimistic.

Whether this was accidental or deliberate, as suspected by the opposition, the economic team under Dominique Strauss-Kahn acquired a wider margin of manoeuvre when presenting the 1998 budget. Higher growth has also boosted treasury receipts: net receipts to August were 3 per cent higher than in the same period last year.

As a result, the general government deficit in 1997 (including the one-off payment from France Telecom in return for the transfer of its pension liabilities) could hit the target designated as one of the conditions for joining European monetary union – the equivalent of 3 per cent of gross domestic product.

Goldman Sachs, the US investment bank, in its latest bulletin has reduced its 1997 deficit forecast for France from 3.2 per cent to 3 per cent.

In the most recent survey of business opinion, the Bank of France, the central bank, found industrial activity had increased across the board in September. Food-processing, capital goods and intermediate goods were especially strong.

The one exception was the automotive sector, which is still adjusting to the negative effects caused by the end 12 months ago of the car purchase incentive scheme that force-fed demand.

This positive sentiment was reflected in the seasonally adjusted figures for summer industrial production released last week. During the combined months of July-August industrial production rebounded, jumping 3.8 per cent from June.

The main reason for the recovery still lies in an exceptionally strong export performance on the back of a weaker franc, especially against the US dollar.

During the first seven months of the year exports rose 15 per cent in value, providing a huge trade surplus of FFr102bn ($17.2bn) – more than double that at the same time in 1996.

Latterly some evidence has emerged of improved domestic demand and a small rise in consumer spending. However, it has taken time for consumers to realise their increased spending power thanks to low inflation – which, at an annualised 1.3 per cent, is touching a low not seen for three decades. But this may be about to change.

Although the Bank of France raised its intervention rate 30 basis points on October 9, largely in response to the German Bundesbank's interest rate move, the bank nevertheless says its action was pre-emptive against inflationary tendencies 18 months to two years down the line.

There are several wage claims in the pipeline, and the official 1.4 per cent inflation target for 1998 may have to be adjusted slightly upwards.

The main imponderables centre on business investment plans and the extent of the return of consumer confidence. Although corporate profits promise to be strong this year, the business community remains wary of the leftist government.

Plans to introduce by law a 35-hour working week – no matter how vague and distant – have rung alarm bells to company headquarters.

The resignation of Jean Gandois as head of the French employers' organisation, the Patronat, may have been an over-reaction to protest against the government's handling of the 35-hour week issue.

But the government must now accept the consequences of having created a confrontational atmosphere just when it had hoped for a form of social contract to stimulate job creation.

Unemployment obstinately hangs around 12.5 per cent, and few believe the government has any panaceas on this front.

Jobs are being created in the service sector, and part-time work is rising, but this is balanced by a cautious employment policy in industry and the threat of job losses in state businesses and the civil service.

A recent leaked report drawn up by the finance ministry estimated 10 per cent of those on the public payroll were surplus.

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NEWS DIGEST

Thai king urges speedy reforms

Thailand's revered King Bhumibol Adulyadej has urged the country's new cabinet to complete constitutional changes quickly, virtually ensuring that new elections will be held in the first quarter of next year.

Swearing in the cabinet, announced by the prime minister, Chavalit Yonghchaiyudh, on Friday, the king said: "I hope the new constitution process will be speeded up to enable it to be implemented sooner than the time frame that has been set."

The Thai government has seven months to pass new electoral laws in conformity with a new constitution enacted earlier this month.

But public pressure has been building on the beleaguered Chavalit government to pass the laws quickly and call elections as soon as possible.

When announcing the new cabinet, government officials said they would be ready by the end of the year to set a date for new elections but there had been some scepticism as to whether the government would follow through on the promise. Tha king's words make that promise hard to break. *Ted Bardacke, Bangkok*

■ GOLD SALES

Swiss reassure markets

Kaspar Villiger, Switzerland's finance minister, yesterday tried to reassure nervous gold markets by stressing that he did not agree with a proposal of a Swiss expert group to sell just over half of the country's gold reserves, currently worth SFr21bn ($14.3bn).

Mr Villiger told SonntagsZeitung, a leading Swiss Sunday newspaper, that the Swiss government wanted to stick to its already announced plan to dispose of up to SFr7bn of gold to finance the establishment of a humanitarian fund.

He also indicated that another SFr7bn would be sold, with a third of the proceeds going to the central government and two-thirds to the cantons.

This is in line with recommendations announced earlier this year on the use of SFr14bn of gold which would be released by the partial revaluation of Switzerland's 2,590 tonnes of gold, the third-biggest government gold reserves in the world. Switzerland's reserves are currently valued at around $90 an ounce, or less than a third of current prices.

On Friday an expert group including officials from the Swiss National Bank (SNB) and Mr Villiger'a finance ministry, recommended the sale of 1,400 tonnes of surplus gold. However, Mr Villiger rejected these proposals and stressed that the bank would retain control of any surplus gold and manage it according to prescribed guidelines.

The SNB is known to be concerned that any gold sales must be conducted over a long time-frame if it wants to avoid a collapse in the price of its most important asset. *William Hall, Zurich*

■ CUBAN SUGAR

Army chief takes charge

Cuba's communist leadership has put the country's highest-ranking career soldier in charge of shaking up the island's strategic sugar sector in response to a disappointing 1996-97 sugar harvest.

Division General Ulises Rosales del Toro, the armed forces chief of general staff and immediate deputy of Cuba's defence minister, Raúl Castro, was named sugar minister at the weekend.

His appointment further extended the influence of Cuba's armed forces over key sectors of the economy, where military management has been increasingly brought in to improve efficiency and stave off corruption.

Gen Rosales del Toro replaced Nelson Torres, a civil engineer who had been sugar minister since 1993. Mr Torres was sacked after a lower-than-expected sugar harvest this year that fell short of last season's total of 4.45m tonnes, despite an estimated $300m of foreign financing. Sugar still accounts for more than half of Cuba's export earnings.

The sugar shortfall this year was a blow to the government's hopes of boosting economic recovery. Cuban leaders blamed it on hurricane damage and disruptions to foreign credit flows caused by the US Helms-Burton law. But foreign businessmen and analysts also cited inefficiency, entrenched bureaucracy and misuse of resources.

Gen Rosales del Toro's appointment may also be intended to restore foreign confidence in the sector. Over the last two years, leading European trade houses such as Vitol, Pacol, Sucden, and Gill and Duffus have been helping to finance Cuban sugar production, which has fallen by about half since the collapse of the former Soviet Union. *Pascal Fletcher, Havana*

■ DEATH PENALTY

Jamaica quits UN accord

Jamaica is pulling out of a United Nations human rights treaty that allows prisoners on death row a final right of appeal to a UN committee, in a move expressly intended to speed hangings of convicted murderers.

The Jamaican government wishes to cut short the appeals process to comply with a 1993 ruling by the UK Privy Council, the highest appeal court for tha former British colony, that death sentences must be carried out within five years.

The withdrawal removes a judicial layer that has added up to two years to lengthy domestic procedures and has thus entailed a *de facto* abolition of the death penalty. No one has been hanged since 1988, and 272 death row prisoners have had their sentences commuted.

All 47 prisoners now awaiting execution have appealed to the UN human rights committee, the body that monitors the International Covenant on Civil and Political Rights, under an optional protocol entitling individuals to appeal to the committee after exhausting their rights under national law.

The committee, comprising 18 national human rights experts, currently has 47 cases pending and has received another 25 complaints from Jamaicans who argue that their rights under the covenant have been violated. These cases will not be affected by Jamaica's decision, which takes effect from January 23.

This is the first time any country has withdrawn from the optional protocol, which has 92 members. *Frances Williams, Geneva*

■ CZECH POLITICS

Warning to Prague coalition

The Czech deputy prime minister, Josef Lux, warned yesterday that people were losing faith in the coalition government and reiterated his call for a new programme to be adopted early next year.

"The government's capacity for action is going down and its capacity to work as a team is low," said Mr Lux, whose centrist Christian Democrat party has often been at odds with its two rightwing coalition partners.

Mr Lux's party has hinted that it would be amenable to forming a government with the main opposition Social Democratic party.

Václav Havel, the president, who is not affiliated with any political party, said he did not think a new programme would be a panacea for the government's problems.

The coalition, which has governed since 1992, has often shown signs of strain after failing to win a majority of seats in parliament in elections last year. It was rocked by a currency crisis six months ago, and last Thursday Josef Zieleniec resigned as foreign minister. *Reuters, Prague*

Arrested Mexican banker gets away

Ex-Confia chief's escape, hours before fraud charges were to be laid, is blow to justice system

By Leslie Crawford in Mexico City

A top Mexican banker who was under house arrest while authorities investigated the collapse of Banca Confia, Mexico's eighth largest bank, absconded from his home at the weekend only hours before he was to be formally charged with fraud.

Jorge Lankenau, former chairman and chief executive of Banca Confia and a leading business figure in the industrial state of Nuevo León, is the third banker to escape arrest since Mexico's financial crisis began in 1994.

Mr Lankenau had been confined to his $20m home in Monterrey since late August, when Banca Confia (confia means "trust" in Spanish) was placed under central bank intervention and banking authorities announced that more than $1bn of government funds would have to be injected into the bank to keep it afloat.

His escape, past a security cordon of 24 police officers, raised suspicions that he had been forewarned of his impending arrest, dealing a further blow to Mexico's discredited judicial system.

The banker's flight has also embarrassed the new governor of Nuevo León, Fernando Canales, who was a former director on the board of Banca Confia.

"We accept responsibility for this problem," Mr Canales told a news conference in Monterrey. "We do not have proof that there was any corruption, but we cannot discard the possibility."

The collapse of Abaco Financial Group and its wholly-owned bank, Confia, marked the 12th government intervention in a distressed financial institution since Mexico's economic crisis in December 1994.

At the time of Confia's intervention, Eduardo Fernández, Mexico's chief bank regulator, said authorities were investigating Mr Lankenau's irregular banking practices, including suspicious fund transfers between the bank, its brokerage house and off-shore companies; Confia's aggressive strategy to gain market share; and some real estate investments.

Mr Fernández also alleged Mr Lankenau had used a real estate company, ABA Inmuebles, to build his shareholding at Abaco by purchasing equity stakes of other shareholders at above market prices. The transactions were backed by Confia loans, he said.

Mr Fernández ordered Confia's intervention after losses exceed the bank's capital and reserves. In September, Confia was sold to Citibank after the government agreed to underwrite estimated losses at the bank of more than $1bn.

In addition, Mr Lankenau faces scores of private lawsuits brought by angry investors who allege they were defrauded of more than $170m placed in off-shore trusts managed by Mr Lankenau.

The investors include some of the wealthiest individuals in Monterrey's tightly knit business community. In the lawsuits, investors allege Mr Lankenau raided the off-shore trusts to inject fresh capital into his bank in a desperate attempt to plug losses at Confia.

Close contest in Argentina's elections

Menem: faces united front

By Andrea Campbell in Buenos Aires

An estimated 22m Argentine voters went to the polls yesterday to elect half of the country's congressional lower house, in what observers say is the most hotly contested election in recent memory.

The ruling Partido Justicialista, known as the Peronists, is pitted against the newly formed opposition front, the Alliance, for 127 of the 257 lower house seats.

Voters were also electing provincial legislative representatives and 60 legislators for the newly created "autonomous city" of Buenos Aires – the national capital.

The Peronists are expected to lose their absolute majority in the lower house. It would be their first electoral defeat in a decade, though they are expected to retain the largest single block of seats.

The likely electoral setback is attributed to the surprise merger of the two leading opposition parties, the Union Cívica Radical (UCR) and Frepaso.

They joined forces in 14 of the country's 23 provinces in August as well as in Buenos Aires, forming a united front against President Carlos Menem's Peronist party.

Buenos Aires, Argentina's largest province representing one-third of the national vote, has been the focus of the election, with the Alliance and Peronists candidates closely tied, each with approximately 40 per cent of the vote.

However, in the important constituency of Buenos Aires city, the Alliance candidate, Carlos Alvarez, was leading his Peronist rival by 40 points. An Alvarez victory would give the Alliance grouping the greatest haul of seats in the election, though it would not secure a majority in the lower house.

The Alliance has accused the Peronists, and particularly Mr Menem, of corruption and "savage capitalism".

Mr Menem, who has played a leading role in the national campaign, has reminded voters of Argentina's economic instability under opposition leadership during the 1980s. The UCR President Raúl Alfonsín was forced to step down in 1989 after annual inflation reached 5,000 per cent.

New Commonwealth charter commits it to free market

By David Buchan and Michael Holman in Edinburgh

The Commonwealth has endorsed its first economic charter committing the 54-nation body to free market principles, though its poorer members thwarted a call by richer countries for a new full round of world trade negotiations.

At the weekend summit in Edinburgh, India led opposition to a move by Britain, Australia, New Zealand and Singapore to get the Commonwealth to support the idea of a new across-the-board trade liberalisation.

I.K. Gujral, India's prime minister, said his country still had "indigestion" from the 1993 Uruguay Round trade deal and did not want to liberalise further now.

As a result, the Commonwealth's "economic declaration" calls for "maintaining the momentum towards freer trade through multilateral negotiations as outlined in the built-in agenda" of the World Trade Organisation.

This refers to negotiations on agriculture and financial services which the WTO is already committed to starting in 1999.

More generally, the Edinburgh declaration is designed to give the Commonwealth – which, like the UK, has no written constitution – a set of economic principles similar to the political principles contained in the 1991 Harare declaration on democracy and human rights. But there seems little likelihood of Commonwealth members being pursued for breaching the Edinburgh economic declaration in the way that the Nigerian military regime is being threatened with sanctions for violating the Harare declaration.

Of lasting significance may be the Edinburgh declaration's agreement to "enhance the Commonwealth's role in building consensus on global economic issues". This suggests that Edinburgh, the first Commonwealth summit to have an economic theme, will not be the last.

Representing a compromise between richer and poorer states, the Edinburgh declaration acknowledges: "Expanding trade and investment flows, driven by new technologies and the spread of market forces, have emerged as engines of growth." But it warns that globalisation has not benefitted all countries, and indeed has "marginalised" some of them and "therefore needs to be carefully managed to meet the risks inherent in the process".

More concretely, Australia, New Zealand, Canada and Britain have agreed to fund a Commonwealth Trade and Investment Access Facility to give smaller states technical advice on adjusting to globalisation.

The Commonwealth secretariat is to report on trade barriers within the 54-nation body. The private sector link is also to be reinforced by a standing Commonwealth Business Council under Lord Cairns, chairman of the Commonwealth Development Corporation, and Cyril Ramaphosa, one of South Africa's new leaders.

South Asia fund to be set up

By David Buchan

India and Pakistan are to become the biggest government donors to a new Commonwealth investment fund for south Asia, in a move that coincided with a cordial meeting of their leaders at the Edinburgh summit and the prospect of eased travel between the two countries.

The scope of the South Asia Regional Fund will also embrace Sri Lanka and Bangladesh, as well as the non-Commonwealth states of Bhutan and Nepal, and will draw funds from south-east Asian donors and from the London-based Commonwealth Development Corporation (CDC), which will also manage the fund.

But of the $107m so far pledged to the new fund, India and Pakistan are to provide respectively $25m and $20m – each of which may end up invested in the other's economy. CDC is hoping to add $100m more of private money to the $107m of public money already pledged. The new South Asia fund mirrors similar Commonwealth funds that have been set up for Africa and the Pacific.

● Membership of the Commonwealth looks likely to stay at 54, following the summit conclusion that none of the three current candidates – Rwanda, Yemen or Palestine – could immediately qualify for the club. The summit agreed putative members needed to have some link with the Commonwealth, should comply with the 1991 Harare declaration on democracy and human rights and should except conventions such as using English and acknowledging the role of the British monarchy as symbol of the Commonwealth's free association of states.

A UK official said Palestine, once a British protectorate, could have a case "if it were a state". Yemen, a former UK colony, "does not meet the Harare principles", while in the case of Rwanda, a former Belgian protectorate, "the question of a Commonwealth link may prove difficult".

Decision on Nigerian sanctions is delayed

By Michael Holman and David Buchan

Commonwealth foreign ministers have recommendad that sanctions against Nigeria be held in abeyance pending the outcome of the military regime's plan to return the country to civilian rule by October next year.

But in a report to the Edinburgh summit due to be published today, the ministers raise the possibility of a two-phase sanctions programme, culminating in consideration of a mandatory oil embargo should the transition prove seriously flawed.

"While the timetable of the current transition programme remains broadly on course," says the report, "ministers remain concerned about aspects of the programme which undermine its credibility."

The Commonwealth ministerial action group (CMAG) was set up at the Auckland summit in 1995, charged with monitoring human rights and making recommendations on ways to restore democracy in military regimes.

The report does not call for the immediate implementation of sanctions against Nigeria, nor does it recommend that Nigeria – suspended from the Commonwealth in 1995 for human rights violations – should be expelled.

Instead it recommends that in the run up to the proposed October 1 1998 handover to civilian rule, the CMAG should be "empowered to invoke the Commonwealth wide implementation of any or all of the following measures if... these would serve to encourage greater integrity of the process of transition and respect for human rights in Nigeria."

This first phase of sanctions would include visa restrictions on members of the regime, an arms embargo, a visa-based ban on sporting contacts, and downgrading diplomatic missions. The visa ban and arms embargo are being implemented by Britain but African Commonwealth members have not followed suit.

The report is critical of the regime. "The continued existence of a military government in Nigeria constitutes the most blatant violation of the Harare principles," says the report, compiled by the foreign ministers of New Zealand, Britain, Canada, Ghana, Jamaica, Malaysia and South Africa, under Zimbabwe's chairmanship.

The report proposes if Nigeria has not completed a transition to democratic government its expulsion should be considered.

See Editorial Comment

Nations fail to reach consensus on climate

By Leyla Boulton, Environment Correspondent

"We've had a lot of rain," said President Teburoro Tito of Kiribati, a tiny Pacific island state which recently suffered floods. "You should export it to us," replied Clement Rohee, foreign minister of Guyana, which is having to ration water after missing its rainy season.

At a party for Commonwealth leaders, both men were serious in fearing freak weather could presage global warming – and threaten the very survival of their islands. "Climate change is literally a question of survival [for us]," President Tito told the summit of 51 Commonwealth presidents and prime ministers at the weekend.

If an expected rise in sea levels and surface temperatures does not submerge his country, it could still discourage investment and condemn the tiny nation to "not much of a future".

Some nations will be able to adapt but even that cannot be taken for granted," warned President Maumoon Gayoom of the Maldives, which along with other small island states in the Commonwealth wants rich countries to agree a 20 per cent cut in emissions of greenhouse gases at a December conference in Kyoto.

While the organisation represents a unique microcosm of the different players, the Commonwealth leaders' meeting did more to highlight than resolve the difficulties ahead. A straw poll of Commonwealth leaders by the Financial Times illustrated disagreement not just on emission curbs for industrialised countries but on the role of developing nations.

John Howard, Australia's prime minister, did his best not to appear on the defensive although his country has in the past opposed any emission cuts. He criticised the European Union's target of a 15 per cent reduction by 2010 as "biased towards the EU".

But Australia seems less worried by the fears of its immediate neighbours in the Pacific than by the notion that emission cuts would put it at a disadvantage vis-à-vis fast-growing developing nations in the Far East.

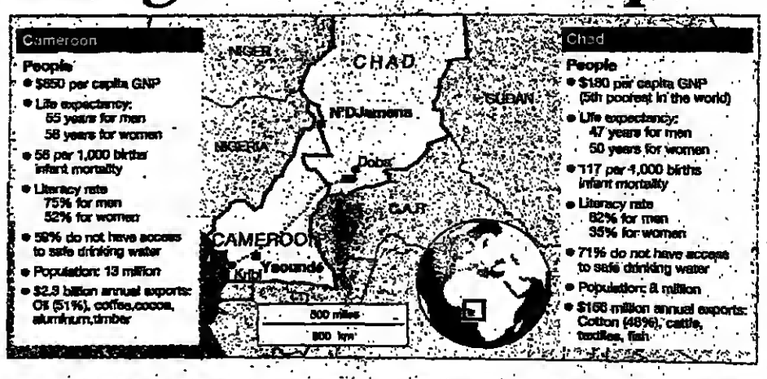
In response, Mahathir Mohamad, prime minister of Malaysia, attacked rich countries for breaking earlier promises of aid to help the environment. "You have not given us a cent," he said.

Such recriminations underline the wider issue of who should pay to fight a problem until now caused mainly by industrialised nations' consumption of fossil fuels.

But as poorer nations develop, their emissions will become a growing part of the problem.

"We need economic growth so you can't just tell us to put our forests in a glass window as a museum piece," said Mr Rohee of Guyana. "It all comes back to the basic question of how you finance things. There's a lot of talk, but where's the money behind the talk?"

Bank role urged in Chad oil plan



An international consortium has decided to go ahead with one of the most controversial oil developments in Africa, providing the World Bank agrees to play a direct role in the proposed $3bn project to develop Chad's Doba oil field and to build a 1,050km pipeline to Cameroon's Atlantic coast.

Exxon, the biggest US oil company, and its partners Royal Dutch/Shell and Elf Aquitaine of France say they are prepared to go ahead with Doba, located in an environmentally and politically sensitive part of southern Chad, if the Bank funds an equity stake in the pipeline by the Chad and Cameroon governments.

A decision to lend the two governments $115m, or 3 per cent of the project's costs, would put the bank in the firing line of environmental and human rights pressure groups which have criticised the Doba project. Exxon has admitted that "the biggest issue is whether this would be an appropriate use of the Bank's funds."

The Doba project could transform the fortunes of Chad, which has a per capita gross national product of just $180. The N'Djamena government stands to gain $5bn in cash over the lifetime of the project as well as an estimated $3.5bn in "indirect" economic benefits. Consortium officials say the Doba project is "the last best hope Chad has".

A decision by the consortium to go ahead with the Doba project would be the latest in a series of controversial moves by western oil companies into politically and environmentally sensitive areas of the developing world.

The consortium wants to drill 300 wells at Doba, which has reserves of about 1bn barrels. Peak production of 225,000 barrels a day would be shipped to a floating storage and export facility on the Atlantic coast of neighbouring Cameroon via the 1,050km pipeline.

The discovery of such large and prolific fields is increasingly rare in the west's politically stable mature oil regions, such as the US and the North Sea. With only limited access to the Middle East oil giants, western oil companies are moving in ever greater numbers into remote and often politically difficult Third World countries in search of the large "elephant fields" that are needed to sustain the reserve position of the biggest companies.

But the oil industry's expansion into the developing world has been dogged by controversy, fuelled in part by the fact that many big discoveries have been made in areas of outstanding natural beauty, or in regions populated by minority groups or bedevilled with potentially explosive political disputes.

In recent years environmental and human rights campaigners have accused international oil companies of a catalogue of alleged crimes. These range from organising death squads in Colombia, supporting military dictatorships such as Nigeria's, threatening stone age Indian tribes in Latin America with extinction and despoiling rare and pristine environments.

Exxon, the operator of the proposed Doba project, admits that its plans in Chad have raised a number of concerns. But the company counters that for countries such as Chad, which is the fifth poorest in the world, oil development offer a unique opportunity to kickstart economic growth. Over its lifetime the Doba project is expected to generate $5bn in royalties, fees and tax revenues for Chad, whose gross national product is a mere $2.7bn and which has annual exports of only $156m. The International consortium believes indirect economic benefits for the landlocked country could total $3.5bn. Cameroon would earn $500m from pipeline transit fees, with an additional $400m in indirect benefits.

The extent to which Exxon and its partners plan to minimise the environmental impact of the Doba project highlights the new sensitivity of big oil companies to criticism by environmental campaigners. Exxon says the proposed pipeline route will follow existing roads through sensitive areas. The permanent pipeline right-of-way will also be confined to a width of 15m, and there will be extensive use of electronic sensors to detect any leaks in the buried line. Of the three routes studied, it should also have the least impact on forests and rivers.

Although many oil companies applied lower environmental standards in the past to oil field developments in the third world, few industry observers believe that Doba would be anything but state of the art. They say none of the three companies involved would risk their brand images and corporate reputations by applying less rigorous standards than those required by industrialised countries.

But even within the most demanding environmental standards Doba is unlikely to escape criticism.

Greenpeace, the environmental pressure group, singled out such projects in its latest campaign against the international oil industry.

Robert Corzine

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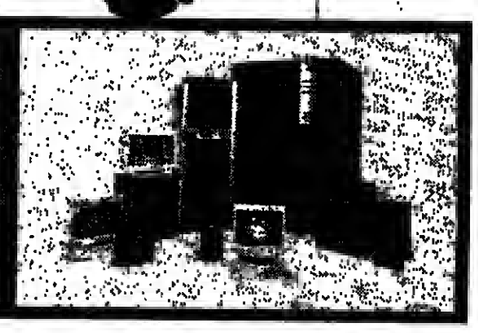

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The upheaval in Hong Kong has shown up the weaknesses in Beijing's economic armour

Asian markets contagion may unnerve China

As Asia's financial markets and currencies have unravelled over the past few months, China has stood apart from the turmoil, seemingly immune to the contagion that has gripped the region.

It may show some of the symptoms of its beleaguered neighbours – an oversupplied property market, an indebted banking sector, manufacturing industry squeezed by overcapacity and rising fixed costs and an economy generally hampered by corruption and cronyism.

But, in other respects, China is different. The foreign capital inflows into the cuntry are mostly for long-term fixed investments, rather than short-term lending – the "hot money" that destabilised countries such as Thailand.

Foreign portfolio investment into China is equivalent to less than 0.5 per cent of GDP and even the fledgling foreign currency stock markets are driven by local investors.

Foreign commercial lending has grown, but with external debt of around $130bn at the end of last year, China's debt-to-GNP ratio is 20 per cent, among the lowest in Asia, according to the World Bank.

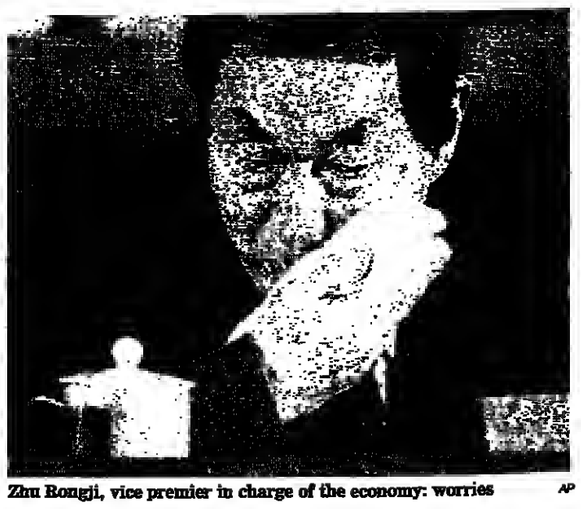
China's currency is not yet convertible on the capital account. The exchange rate remains strictly government-controlled and defended by over $130bn in foreign exchange reserves.

And in China, where exports are soaring, sentiment suggests the currency is, if anything, undervalued: "If they freed the Renminbi [the Chinese currency], it would appreciate," says Brewer Stone, head of Prudential Securities in Shanghai.

In short, foreign investors are hard put to mount an assault on either China's currency or its stock markets.

However, the upheaval in Hong Kong last week has offered a reminder of the weaknesses of the Chinese economy and how turbulence in Hong Kong, which is intimately involved in the reform on the mainland, has inescapable implications for China.

While China has stayed on the road of economic development,



Zhu Rongji, vice premier in charge of the economy: worries AP

Beijing is grappling with problems: a slowdown in the rate of growth, fears of deflation, urban unemployment and a state sector badly in need of reform.

"There has been e slowdown. We do not know yet whether to be completely alarmed or not," says the representative of an international financial institution in Beijing.

As Beijing pursues a policy of state-sector rationalisation that threatens to make tens of millions of people redundant, the Chinese leadership sees consistent growth as essential to smooth the reform process. The concern is compounded by evidence of slowing growth in domestic demand. The retail price index for September was flat at zero per cent on a year-on-year basis.

The figure is a remarkable achievment for Zhu Rongji, vice premier in charge of the economy, who has brought inflation down from a peak of 25 per cent in October 1994, but the steep fall is now prompting fresh questions of looming deflationary pressure.

Given that the external sector is performing strongly – the bilateral Sino-US trade surplus alone is set to grow to $44bn this year – concerns about sustaining the rapid growth rate centre upon investment, both domestic and foreign.

The People's Bank of China, the central bank, cut interest rates last week for the first time this year, "a tacit admission that there are e few worries about investment", says the chief economist of an international financial institution in Beijing.

With contracted foreign investment falling this year, last week'a troubles in Hong Kong raised the possibility that the flow of capital from the territory into the mainland might slow.

Investment from and through Hong Kong accounts for nearly half the foraign investment in mainland China. Last year, Hong Kong invastment stood at $20.87bn out of в total foreign investment of $54.8bn.

Uncertainty in Hong Kong, could also exacerbate the problems of China's banks, whosa non-performing loan portfolio is estimated to be as high $200bn, one quarter of all outstanding loans. Most of the bad debts are generated by loss-making state companies. But in some cases, at least, the banks' losses have been offset by profits and appreciating assets in Hong Kong, notably Bank of China, one of the four largest state banks, which reported *that $1.6bn of its* $2.3bn profits last year were generated from operations in Hong Kong and Macao.

The devaluations in Asia highlight China's own currency management issue. Last month, Zhou Xiao Chuan, the head of the State Administration for Foreign Exchange Control, said there was "reason for the domestic currency to have an appropriate appreciation".

However, Chinese exporters have been increasingly worried by such an adjustment, just as south-east Asian rivals enjoy renewed gloabl competitiveness since their currencies have devalued.

To date, the mainland Chinese authorities have sought to make в virtue of a similarly hands-off approach to matters of Hong Kong's economic management.

The PBOC was certainly encouraged by the Hong Kong Monetary Authority's performance last week, rebuffing, for the time being at least, speculative assault. But a senior PBOC official says there is more to the central bank's faith in the separation of powers between Hong Kong and China. The two have separate problems, he says, and "HK is wholly responsible for its financial system. And we have our own economy to manage."

James Harding

Top Russian minister visits Israel

By Judy Dempsey in Jerusalem

Yevgeny Primakov, Russia's foreign minister, yesterday arrived in Israel in an attempt to re-establish a role in the region and possibly mediate in opening a dialogua between Israel and Iran, crucial for peace negotiations with Syria.

Mr Primakov, fresh from a visit to Lebanon and Syria, met Benjamin Netanyahu, Israeli prime minister.

He was due to have dinner with Ariel Sharon, infrastructure minister and one of the few government officials interested in improving relations with Iran after they were cut off following the fall of the Shah in 1979.

Mr Sharon's ability to start a rapprochement with Iran could depend on the outcome of Mr Primakov's visit.

Israeli officials want firm assurances from Russia that it will stop all official or covert deliveries of equipment to Iran which would give Tehran nuclear missiles capable of striking Israel.

"Within a year Iran could target Israel with non-conventional warheads," said a senior Israeli official. He was referring to the 1,500km-range missiles Iran is developing.

Israel has spent months lobbying the US Congress to impose sanctions against Russia if it continues supplying Iran with equipment. But Washington is reluctant to jeopardise its relations with Moscow just as much as it anxious to avoid a trade war with Europe.

The Clinton administration recently resisted pressure to impose immediate sanctions against Total, the French energy company, after it signed an agreement to invest $2bn in developing an Iranian natural gas field.

As Israel continues its lobbying of Congress, officials said Mr Sharon was anxious to deal with Russia directly, possibly seeking Moscow's mediation between Israel and Iran over a $650m debt owed by Israel to Iran for oil deliveries. All payments were ended six months before the Shah fell. Officials said if that dispute was resolved it could pave the way for "a very gradual rapprochement. But it would not be easy. Many [Israeli] politicians are against it."

Mr Sharon has good connections in Moscow. He recently started talks on a plan to construct a natural gas pipeline between Russia's Gazprom company and Israel. The deal entails Gazprom supplying Israel with up to $500m worth of gas a year, giving Israel a long-term and stable source of power while providing Moscow with an important strategic entry into the Mediterranean and Middle East markets.

Financial moves may give companies a boost but big problems remain

India tries to oil wheels of industry

India's stock markets greeted last week's announcement of a battery of financial reforms and interest rate cuts by retreating for three successive days, though – in fairness – they took their cue from turmoil elsewbere in Asia.

There was general applause for the measures, designed to inject a strong dose of credit into the country'a flagging economy, but there is a growing feeling they will not kick-start the troubled industrial sector.

"It is not the big bang some people were looking for," said the bead of one foreign investment bank.

However, Cbakravarti Rangarajan, governor of the Reserve Bank of India (RBI), is convinced that credit will boost Indian industry. In an interview with the Financial Times, Mr Rangarajan said: "One does move in these matters step by step – but these are very large steps."

He said the new credit policy would "accelerate the flow of credit by increasing the lendable resources of banks and reducing the cost of credit". It wonld also carry forward financial sector reforms improving the functioning of various markets. He said the two objectives "go together".

Last week the RBI announced a one percentage point cut in the bank rate and a 2 percentage point cut in the cash reserve ratio – releasing Rs96bn ($2.65bn) into the banking system.

Unfortunately banks are already awash with casb. Adding still more liquidity may not maka much difference. "We have not seen interest rate cuts stimulating a buge amount of investment in the past," said Rajashekar Ayer, bead of research at KOTAK Securities.

There are two theories about the reason: poor credit delivery and lack of demand for investment. Both bold some merit.

Industrialists say that bankera – under pressure from regulators to cut down bad loans – suffer from a "fear psychosis" and are afraid to lend to companies which may not survive globalisation of India's economy. "Small and medium-sized companies cannot get loans at any price", said Silesh Sharma, a Cochin-based entrepreneur.

Rangarajan: industry needs credit

Here Mr Rangarajan faces a dilemma. Having recently given banks freedom to make lending decisions he cannot tell them who to lend to. But be said the Reserve Bank would take a close interest in "delivery of credit". Last Tuesday Mr Rangarajan urged banks to lend more actively, particularly to the retail trade and infrastructure projects.

"There is now clarity on lending to projects which cannot be assessed under general lending criteria" said Solomon Raj, chief executive of Indosind Bank.

Mr Rangarajan announced banks now were free to set term deposit rates above 30 days' maturity. "This is more important than cutting interest rates," said Mr Ayer. It would put pressure on margins and force banks to lend activeiy – at a time when risk-free government paper is drying up.

Mr Rangarajan said reforms to financial markets would go hand in hand with bank reforms. Last week's measures allow Indian banks and mutual funds to invest more freely abroad and allow foreign institutions to buy government debt. "This will bring abont greater integration of domestic markets and external markets," said Mr Rangarajan. "There will be a gradual convergeoce of interest rates."

In the long run this is significant, offering companies access to long-term funds at low interest rates for the first time. But in the short term there is little consequence for most of industry.

Mr Rangarajan – with an eye on east Asian ecooomic turmoil – did little to free up India's currency, the rupee.

The RBI is likely to err on the side of caution in its eagerness to avoid a rising current account deficit or an inflow of short-term hot money. And in the absence of a big liberalisation of capital markets it is difficult to see how fine-tuning the banking sector can turn India's economy around.

For however poor delivery is, industrialists exaggerate its significance. Banks are already pouring money inin corporate debt. And bankers point out that working capital needs bave fallen as banks become more efficient at clearing cheques and companies learn to manage inventories better. They say structural factors are constraining investment – overcapacity, foreign competition and atrocious infrastructure.

"Industrial growth bas been slow because of lack of investment in infrastructure," said Mr Raj. "This bas resulted in falling demand for concrete, steel and some petrochemicals." Banks could only facilitate growth. "There are many other factors to be taken into account – demand, exports," be said. Credit policy alone "will not trigger it".

Krishna Guha

Hanoi presses EU on textiles

Brussels seems in no mood to buckle over import quotas

By Jeremy Grant in Hanoi and Neil Buckley in Brussels

Nguyen Van Do wedges a mobile phone under his chin and flips open a laptop computer. "I'll tell you exactly what the problem is," says the import/export manager at a state-run garment maker, scanning his screen. "We have quotas but they're not enough. Soon, we'll have no orders."

Mr Do is not the only frustrated Viatnamese textile company executive. As the European Union and Hanoi sit down today to hammer out a new textile agreement in tha Vietnamese capital, many others claim they will be forced to the wall unless fiere is a rise in quotas.

The current three-year pact runs ont in December. Vietnam wants much improved quotas because textiles are one of its top foreign exchange earners, a boon as it battles a trade deficit so far this year of $2bn.

And the EU is important for other reasons. Exports to the US, which offer the richest pickings, are minimal and subject to high tariffs as Washington continuaa to withhold Most Favoured Nation trading status.

The EU is therefore Vietnam'a biggest market, with textiles accounting for about 70 per cent of total exports to the EU, aarning Hanoi Ecu869.5m ($410m) last year. It is unsurprising that Vietnam bas asked for quota increases in categories that are – in the words of one EU official – "out of this world".

But Brussels is in no mood to buckle. Ever since Vietnam emerged two years ago as a big exporter of textiles to the EU, member states such as Portugal – fearful of job losses in an industry that accounts for almost a third of its workforce – have persuaded Brussels not to allow a fresh flood of textila imports.

Nor are the two sides used to finding common ground easily. Relations between Hanoi and Brussels hava often been rocky since diplomatic ties were forged in 1995. Failure by Vietnam to grant the EU reciprocal access to its market by a mutually agreed deadline prompted Brussels in January last year temporarily to suspend the textile pact.

"The general mood is not too generous because of the situation of the textile industry in Europe and unemployment, which is very heavy in this sector," said Riccardo Ravenna, EU ambassador to Hanoi. The talks would be "very difficult".

Some point to signs of a softening of the EU stance. EU foreign ministers agreed in April to take a more flexible line on import quotas for textiles despite breaches of import quotas by low-cost producers such as China, Indonesia and Vietnam.

Others argue Hanoi deserves better after being dealt a poor hand in negotiations for the current pact. "The Vietnamese are not very experienced in such negotiations," said one official at the Brussels-based Free Trade Association, which promotes free trade and the interests of EU importers. The EU "allowed them to sign up to a very bad agreement".

So bad, Hanoi says, that it ought to be treated on an equal footing with fallow countries of the Association of Southeast Asian Nations (Asean), whose quotas are higher. But the EU rulas that out, urging local exporters to diversify production to include quotas that are not yet being used.

Vietnam is battling with a trade deficit already at $2bn

There are othar reasons why Hanoi should not be too hopeful. One is the EU wants an end to what it calls discriminatory quota allocation. Foreign textile investors claim Hanoi hands out quotas to politically-favoured state-owned companies. "We are operating not even at break even because we can't reach our production capacity. Wa have constant negotiations over quotas," says Koen Vandekerckhove, deputy director of Apex Dalat, a knitwear joint venture in southern Vietnam.

Local companies with quotas are also suspected of selling them on a rudimentary secondary market, earning extra cash for vested interests.

"This is a very serious problem. We want to make sure that whatever the size of the quotas, they ara shared out equally in Vietnam, be they local or foreign joint venture companies," says Grillo Pasquarelli, bead off tha EU negotiating team.

Vietnam has already used up its export quotas for this year, which explains why exporters like Mr Do are anxious to see a new regime in place soon.

NEWS: UK

Swindon wins new Honda range

By Haig Simonian in Tokyo

Honda Motor, Japan'a third biggest car company, has decided in principle to build a third car range at its Swindon plant in south-west England rather than at a new location in mainland Europe.

The move, which will raise Swindon's output to 250,000 cars a year, is expected to be announced in early 1998. Honda's public response to inquiries about its European production plans is still that the issue is under consideration pending a decision within the next year.

Honda's expansion follows the decision in January by Nissan, Japan's second biggest carmaker, to build a third range at its Sunderland plant in north-east England.

Honda will build at Swindon a compect batchback model, along the lines of Ford's Fiesta, to compete in the UK – ooe of the biggest and most resilient parts of the European market. The model is expected to he based on its new J-Series, unveiled at the Tokyo motor show last week.

Honda currently builds five-door Civic family hatchbacks and larger Accord saloons in Swindon. Outpnt is expected to reach 120,000 units this year and ahould hit 150,000 to 1998. The third model would add a further 100,000 units of capacity, boosting employment at the plant from 2,400 and creating additional jobs among suppliers.

The carmaker's plans come amid growing aigns that Toyota, the higgest Japanese car company, will decide to build its planned third European model at a new plant in northern France rather than expanding its factory at Burnaston in the British Midlands.

The apeculation abont Toyota's plans has centred on the region of Valenciennes near the Belgian border which is an area of relatively high unemployment and would qualify for substantial government subsidies to create jobs.

Toyota's strategy for locating in France would be to gain a foothold in a market where sales for all Japan's carmakers have traditionally been very weak partly hecause of stiff resistance from French carmakers Renault and Peugeot-Citroën.

Toyota says a decision is due hy early next year. Akira Yokoi, executive vica president for international operations, said in an interview tha company was examining a number of locations. While already familiar with the UK, Toyota was waighing up possibilities elsewhere, he said. "We are presently looking at this iesue from e variety of aspects."

However, Mr Yokoi denied rumours that the company might co-operate with Peugeot-Citroën by using some of the French company's domestic capacity to build Toyota vehicles. He said relations with Psugeot-Citroën were restricted to an engineering study to see whether its diesel engines could be used in Toyota vehicles.

Doubts emerge over evidence in Hamilton case

By Liam Halligan, Political Correspondent

MPs have conceded that "serious question marks" hang over evidence condemning Neil Hamilton, the former Tory minister embroiled in the cash-for-questions scandal which damaged John Major's government.

Sir Gordon Downey, parliamentary commissioner, could resign if his interim report into Mr Hamilton's conduct is not unanimously endorsed when the Commons committee on standards and privileges meets on Tuesday, it has emerged.

Some members of the committee – which comprises seven Labour MPs, three Conservatives and one Liberal Democrat – are concerned that witnesses providing testimony that Mr Hamilton took up to £25,000 from Mohamed Fayed, owner of Harrods, were Mr Fayed's former employees.

Mr Hamilton has repeatedly denied the allegations.

A group of committee members is attempting to "water down" the section of Sir Gordon's report that says evidence of Mr Hamilton's wrongdoing is "compelling". Until now, the committee was expected to endorse Sir Gordon's judgment unequivocally. Its failure to do so would be seen as a moral victory for Mr Hamilton, who vigorously defended himself before the committee two weeks ago.

"If the investigation was conducted egain, entirely second-guessing Sir Gordon, he would find life very difficult," said a committee member. "But there is cross-committee recognition that Mr Hamilton raised genuine concerns about evidence." Another said: "Mr Hamilton has been condemned before his case has been properly heard or pronounced upon." Sources close to Robert Sheldon, the Labour committee chairman, said there was "no pro-Hamilton hloc" on the committee, hut that "significant doubts have been raised by both Tories and non-Tories".

In the wake of Mr Hamilton's testimony, in which he accused Mr Fayed of illegally opening the Harrods safe-deposit box of Tiny Rowland, former Lonrho chairman and his rival in the battle to huy Harrods, Mr Fayed could be required to address the committee, the source said. The committee must decide this week whether Mr Fayed, who has denied wrongdoing, is to appear.

Since Mr Hamilton's accusation against Mr Fayed, made under parliamentary privilege, it has emerged that the matter is under investigation by the Organised Crime Group, a police special operations unit.

Ashley Ashwood

Neil Hamilton: MPs say "serious question marks" hang over the evidence against him

Minister appears flexible on trial of Libyans

The government last night gave the first indications that it might be prepared to see the trial of the two Lihyans accused of the Lockerbie bombing take place outside Scotland or the US.

Rohin Cook, the foreign secretary, said he "would not totally rule out" such a move although there were "formidahle obstacles" preventing a trial in a third country.

Earlier, Tony Blair had turned down a plea from Nelson Mandela, the South African president, to drop the UK's opposition to a third country trial.

The prime minister said Britain continued to believe the trial should be held in Scotland and that the accused would get a fair trial to spite of the huge publicity that followed the bombing of the PanAm jet in 1988.

But Mr Mandela expressed "grave concern" that a trial in which a country was "complainant, the prosecutor and the judge at the same time". He added: "Justice cannot be done in that situation."

Mr Mandela's call for a third party trial is backed hy the Libyan government, the Organisation of African Unity and the Arab League. But the UK government continues to side with Washington which has insisted the trial take place either in the US or Scotland. UK ministers point out that a third party trial would require the agreement of the US which holds mnch of the key evidence.

Britain's refusal to accept a third country trial was yesterday strongly attacked by representatives of the Lockerbie victims' families.

Mr Jim Swire, spokesman for the UK families which back a third country trial, said a trial in Scotland was "simply not achievable" and the government's position was "poisoning our country's reputation abroad". But he later expressed encouragement after his first meeting with Mr Cook.

At a press conference in Edinburgh, Professor Bob Black, professor of Scots' law at the University of Edinburgh, laid out his proposal for a third country trial in front of a panel of judges rather than a jury. The Foreign Office said the lack of a jury was one of the government's worries about a third country trial which would also require a change in Scottish law. Prof Black said this would be a simple amendment which could be pushed through parliament quickly.

MoD invites tank tender from Poland

By Alexander Nicoll, Defence Correspondent

The Ministry of Defence has invited a Polish company to tender for a contract which could lead to manufacturing specialist tanks for the army, causing concern to Vickers which is making the Challenger 2 tank.

Obrum has been asked to tender by December 10 for a feasihility study for the "future engineer tank", which will carry bridge kits and obstacle-removing equipment. This is in competition with Vickers and GKN Defence, which has teamed with MAK of Germany.

The winner of the study tender would be in a strong position to secure the eventual manufacturing contract.

The government has made clear it wants to forge a close relationship with Poland, which is due to join Nato in 1999. British troops recently exercised there and visits hy George Robertson, defence secretary, and John Reid, armed forces minister, over the past two months underline the government's view of Poland as a potentially strong ally in eastern Europe.

Sir Colin Chandler, Vickers chairman, said: "When British industry needs to be at its strongest, as we enter the rationalisation of the European defence industry, it seems strange that the government is not taking every opportunity to strengthen British industry."

Vickers executives and trade unions are worried about production gaps at the company's Newcastle and Leeds factories after it has finished making Challenger 2 tanks for the British army. Other orders for which Vickers is competing are still some way off. They have raised the tender invitations with local MPs.

The Ministry of Defence said Obrum had expressed an interest in the tender. The competition for the feasibility study was in keeping with its quest for "value-for-money solutions", and would ensure that it had the widest range of options. Including foreign companies in such competitions was normal, the MoD said.

Vickers believes that since the army will be using its Challenger 2 tanks, it would make little sense for the engineer tank chassis to be a different model, requiring different training, maintenance and spare parts.

The Commons defence select committee yesterday called for the government's strategic defence review not to undermine spending levels, Liam Halligan writes.

The call came from Bruce George, committee chairman and a senior Labour MP, ahead of a two-day debate on the defence review, which gets under way today in parliament.

"Restructuring onr defences for the 21st century will require investment, and spending is currently at its baseline," said Mr George.

As a Gallup opinion poll yesterday suggested 59 per cent of Britons believed the country would be more secure without nnclear weapons, George Robertson, defence secretary, said the UK needed "the insurance policy which defence represents". He is under pressure to find savings in Britain's £22bn defence budget. But he will today stress the review is driven by foreign policy, not the Treasury.

Scheme to warn drivers of town congestion

By Charles Batchelor, Transport Correspondent

Seventy UK towns could have computerised traffic management systems informing drivers of congestion and parking conditions under a programme to be piloted in Winchester, Hampshire, southern England in January.

Roadside sensors will monitor congestion and radio beacons will transmit the information, including details of park-and-ride services, to motorists through in-car receivers or on variable message road signs.

The project, the most ambitious scheme to manage traffic in towns, is the idea of Trafficmaster, a listed company that supplies to-car traffic information to subscribers.

The company has a nationwide network of sensors on motorways, now being extended to main roads, that measure traffic speeds and detect jams. Subscribers get the information via a small screen on the dashboard showing a map of congestion, or by voice on a radio receiver.

However, to make the information available to more motorists travelling into towns tovolved in this scheme, Trafficmaster will use roadside signs and a dedicated car phone line.

Trafficmaster and Hampshire county council are jototly launching the pilot project. Trafficmaster hopes to find commercial sponsors with motoring connections, such as oil companies, to run the project long-term and to expand the scheme to other towns.

Trafficmaster estimates it would cost £3m ($4.86m) a year to run the system nationwide.

Sonthampton and Bristol are expected to follow Winchester, and after 18 months Trafficmaster bopes to have the system installed in all UK cities with a population of 100,000 or more, said David Martell, chief executive.

"We will be providing information on all modes of transport to help people reach their destinations. This fits into the government'a concept of an integrated transport network."

The scheme would extend into towns the system already being operated by the Highways Agency on motorways and main roads.

Traffic controls help drivers out of a jam

Better road management is freeing-up network

Increasingly sophisticated traffic management systems are being employed to allow drivers to avoid congestion and to give priority to buses on Britain's crowded road network.

With the roadbuilding bodget sharply cut and official estimates predicting traffic growth of up to 51 per cent by 2016, there is growing pressure on politicians and transport officials to make more efficient usa of the existing network. Management systems can increase the capacity of a road hy up to one third. "We are positioning ourselves away from being a roadbuilder to hecoming a network manager and controller," says Lawrie Haynes, chief executive of the UK Highways Agency, responsible for the trunk road network.

Now, travellers who go by bus or coach to Heathrow airport not ouly snjoy the convenience of the first bus lane on a British motorway; when they reach the airport the traffic lights are programmed to allow public transport vehicles through first. In Edinburgh, Scotland, the 800 huses run by local operators carry davices to trigger traffic lights at 57 points in tha city. The project is expected to improve bus journey times by up to 10 per cent.

Although traffic planners are increasingly seeking to keep private motorists out of town centres, they are also working to make urban driving more efficient.

Seven European cities are involved in a programme designed to apply traffic management systems to their specific problems.

In Southampton, southern England, the availability of spaces in 13 car parks is monitored and passed on to motorists by 17 information signs. The car parks are grouped in three colour coded zones to help drivers identify the nearest.

In Piraeus, Greece, message signs inform drivers in advance of congestion, while traffic light sequences are being modified to respond more rapidly to traffic flows.

More ambitious systems are coming into use on the UK motorway network.

For the past 18 months traffic between London and the Midlands haa been directed from two police control centres. They operate 82 variable message signs on the four main routes available. If any of the routes are blocked the police can direct motorists to an alternative.

On the south-west section of the M25 London orbital motorway, sensors detect the build-up of heavy traffic and automatically trigger signs directing drivers to cut speeds to 60mph or 50mph.

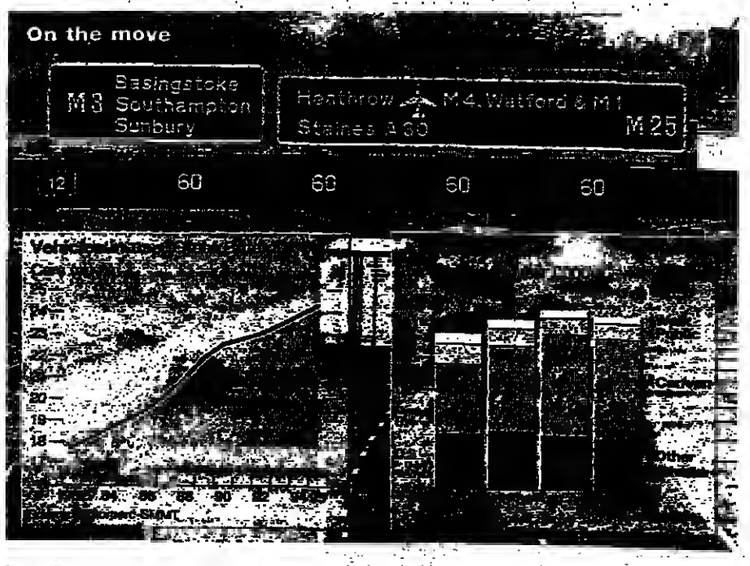
The economic payback from these systems is considerable. The lower speed limits reduce stop-start driving and lane switching and lead to faster journeys. In the first 18 months of operation on the M25 they reduced accidents by 28 per cent and boosted motorway capacity by 4-5 per cent.

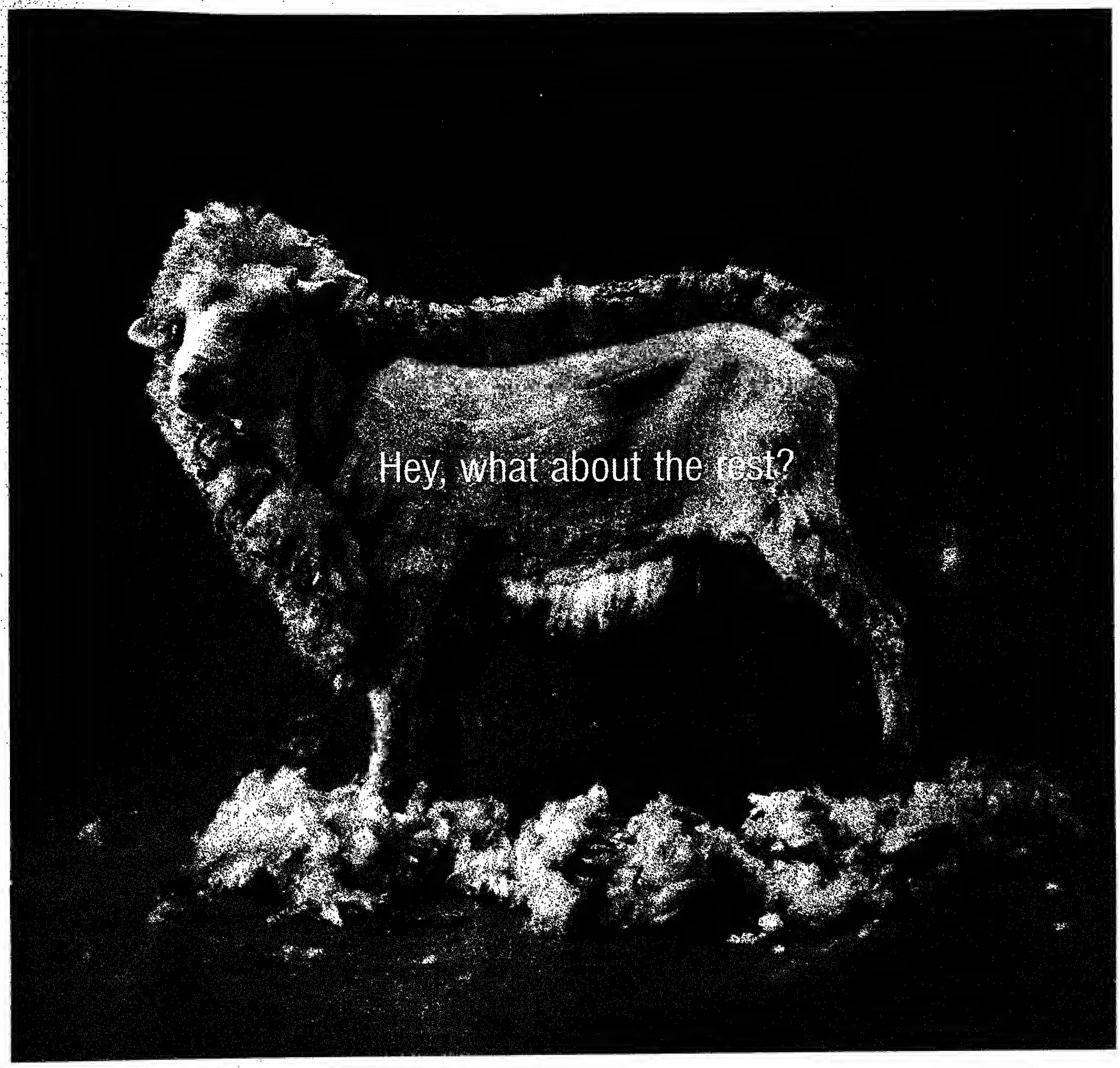
The M25 controls cost £12m to install, compared with £14m to build e mile of motorway. But the problem for policymakers is generating a financial return from such controls which could be used to fund their more widespread use.

This funding gap has forced the government to reconsider plans to use the private sector to finance traffic control centres for the English trunk road network. The motoring organisations, suppliers and telecommunications groups which were expected to provide the money have said the scheme is not viable.

The answer could be electronic road tolls – an option the government is reviewing in preparation for a transport white paper.

Charles Batchelor





One of the largest agribusiness companies in the world. A multimillion-dollar export deal at stake.

The Bunge Group required structured long-term US$ financing for its subsidiary, Santista Alimentos S.A., one of Brazil's largest food companies. The deal was underway, its year-end deadline critical. But late in November, an impasse.

Risk containment for the vast number of Santista's import clients – plus the exacting government approvals needed for the dollar financing – threatened to take more time than the project had left.

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THIS WEEK

How to harness Japan's racketeers

DATELINE

Tokyo: is there any swift, acceptable way to turn the tide of *sokaiya* scandals? asks **Gillian Tett**

Another week in Japan – and another set of business scandals. In the last few months, corporate Japan has watched as Dai-Ichi Kangyo Bank, Nomura, Yamaichi, Daiwa and Nikko became ensnared in scandals over *sokaiya* racketeers.

Then last week, Mitsubishi Motors and Mitsubishi Electric fell into the scandal spotlight. The police swooped on the companies, amid allegations that the groups had been paying "bush money" to racketeers.

The apparent blackmail of the companies had all the hallmarks of classic *sokaiya* operations. The only novelty was that instead of using cash, the companies had allegedly made phantom reservations to stay at a seaside guest house run by a *sokaiya* group.

All this looks bizarre to western eyes. The latest scandals have left the roll call of *sokaiya*-tainted Japanese businessmen reading rather like a *Who's Who* of the country's financial world. At last count, more than a dozen Japanese executives had been arrested, and about 60 resigned.

But the bigger puzzle is what, if anything, can Japan do about this endless tide of *sokaiya* sleaze?

Would arresting the *sokaiya* in droves work? Can Japan really lock up senior corporate figures? Or should the country, as one western banker quipped in a conversation recently, be taking a whole new approach - and focus instead on providing a carrot, rather than stick to the *sokaiya*?

What about a racketeer rehabilitation initiative? For Japan, he pointed out, has a dire shortage of qualified fund managers. So why not encourage *sokaiya* to use their skills in a legitimate way as western-style institutional investors?

The idea was a joke. But as a flight of fancy it has a strangely seductive logic. For as the scandals bubble on, it is clearer by the day that the existence of the *sokaiya* – and the shortage of western-style money managers in Japan – are two sides of the same, problematic coin.

The *sokaiyo* emerged in the 1950s and 1960s, when some of Japan's existing *yakuza* gangsters discovered that they could develop a lucrative new business niche by offering their services to companies.

Although the companies paid lip service to Anglo-Saxon corporate rituals, such as annual general meetings, most regarded shareholders with deep disdain. Consequently, on the rare occasions when shareholders threatened to cause problems, companies learned to silence them by hiring the gangsters.

However the *sokaiyo* then started to demand regular payments in exchange for not revealing embarrassing information about the companies themselves.

By the early 1980s, their presence was so endemic that the government declared that *sokaiya* payments were illegal.

That appears to have changed their style. Police say fewer than 1,000 are operating now, compared to several thousand before 1982. And whereas *sokaiya* used to be small-time thugs, many have become more sophisticated.

They are still violent. But some are also financial experts: they gain their "embarrassing" information about corporate affairs by poring through company accounts and financial statements.

That is where the outrageous fund manager idea comes in. The type of "embarrassing" financial questions that *sokaiyo* can threaten companies with are often little different from the issues that any Anglo-Saxon institutional investor would raise. However, the problem is that in Japan there is a distinct lack of this type of independent institutional investor.

This implies that if Japan did ever move towards a western shareholder culture, then the power of the *sokaiya* would disappear. So if Japan did ever want to find a pool of individuals who could be turned into independent, aggressive western-style investors, the *sokaiya* might – possibly – match part of a headhunters' brief.

After all, some already have a grasp of corporate affairs and balance sheets that is better than many Japanese company officials, according to some police officials.

Could the idea ever fly? Not before pigs did. The sheer concept would sound appallingly distasteful to most Japanese – particularly those who had fallen victim to *sokaiya* violence.

And the theory runs into another fundamental problem: in Japan at present crime is often more lucrative than being a legitimate money manager. Fund managers at Japanese companies are generally paid much less than western rates.

So where does this leave the government? For the moment, pushing ahead. The police have now warned that some 20 other leading companies are also embroiled in the Mitsubishi affair. Behind the scenes, the authorities are stepping up pressure on other groups to come clean about their *sokaiya* links.

However, these approaches are unlikely to be entirely successful. The corporate humiliations have sent a powerful message to the rest of corporate Japan, and many companies are quietly conducting intensive internal discussions about how they can sever *sokaiya* links.

But cutting ties remains for some companies a distinctly risky affair.

So Mitsubishi might be the latest company to have been accused of *sokaiya* links. But it will certainly not be the last – not, at least, until Japan implements a change in corporate culture almost as radical as any *sokaiya* rehabilitation theory.

The Monday Profile: Nicolas Hayek, Swatch

Watch King at the wheel

Today's opening of Micro Compact Car's plant at Hambach in France has attracted an impressive list of guests. Germany's Helmut Kohl and France's Jacques Chirac will be there to cut the ribbon at the joint venture between Mercedes-Benz and Switzerland's SMH watches group.

But likely as not the TV cameras will be more interested in the cigar-puffing Nicolas Hayek, a short rotund figure with a penchant for wearing up to half a dozen wrist watches at a time.

Mr Hayek, born in Beirut nearly 70 years ago, is Switzerland's best-known business hero and an inveterate showman. He loves to rub shoulders with heads of state, business figures like Fiat's Gianni Agnelli, and supermodels such as Cindy Crawford. He tried to recruit a Swiss astronaut to be a director of SMH, the world's biggest watchmaker.

How he will fare in the motor industry is uncertain. MCC was created to build the Smart, a diminutive 2.5-metre two-seater, which its backers claim will revolutionise urban mobility.

The project's origins lie in the Swatchmobile, the urban car venture Mr Hayek devised and sold to Volkswagen, Europe's biggest carmaker. When VW's new boss, Ferdinand Piëch, axed the project, Mr Hayek found a new partner in Mercedes-Benz.

Mr Hayek says Mr Piëch's hostility was based on distrust for any vehicle not devised by an automotive engineer. But Mr Hayek is a successful engineer.

Hayek Engineering, the Zurich-based consultancy he still heads, has an impressive roster of customers, including Daimler-Benz, VW, BMW, US Steel, Digital Equipment and Nestlé.

However, Mr Hayek made his name in the 1980s not as an engineer, but as a businessman. He was hired to rescue the Swiss watch industry and launched SMH's fabulously successful, low cost, quality Swatch brand which saw off the Japanese competition.

Time is marching on for Mr Hayek, the man the Swiss call the *Uhrenkönig* (Watch King). Other Swiss business giants, such as Nestlé's Helmut Maucher and Roche's Fritz Gerber, have brought in younger men as chief executive. By contrast, SMH has lost much of its sparkle. Profits remain well below their 1993 peak (as does the share price) and there is increasing concern about management succession.

Mr Hayek has no intention of bowing out. SMH's managing board "refuses to let me go – they love me here," he says.

One decision occupying a large amount of Hayek's time is MCC. It is not SMH's first diversification – SMH and Siemens make cordless phones – but it is the the most expensive and dramatic.

Mr Hayek has always been an outsider, even in Switzerland, his adopted home. "My whole life has been spent swimming against the tide. When we launched the Swatch everybody said we would never sell more than 100,000. We have already sold more than 250m. It's a question of marketing," he says.

Mr Hayek's Swatch message is the key to understanding his belief that there is a huge untapped demand for the Smart, in spite of scepticism. Swatch is one of the world's 30 best-known brands.

He has no qualms about allowing Swatch's marketing know-how to be harnessed selling an eco-friendly vehicle which would fight urban traffic congestion. "We have to do something, we are destroying the world's ozone layer," he says.

He also believes Europe's car makers have to follow SMH's example and conquer the low-priced car market to survive.

So what does SMH bring to the plastic-panelled Smart? Outsiders point to the marketing skills which have led to queues outside Swatch showrooms whenever a model comes out.

Mr Hayek, however, focuses on leadership in highly specialised low-power electronics. Such technology will be essential for a future hybrid version of the Smart, to be called Swatchmobile, in which an internal combustion engine will generate electricity to drive tiny motors on each wheel.

In a complex deal in August, Mercedes-Benz raised its stake in MCC from 51 to 81 per cent. In return, Mr Hayek gained control of the MCC subsidiary behind the hybrid version.

Mr Hayek stresses the hybrid car is a team effort. "I am not the inventor of this car, but without SMH it would never have been built and not the way it is now."

What of critics who say MCC will never sell the 200,000 cars to be built each year? "I have driven the car very many times and if we market it properly we should be able to sell 200,000 a year," he says.

William Hall and Haig Simonian

FT GUIDE TO:

WORLD DISEASES

The World Health Organisation is warning that TB is virtually out of control in parts of the world. Why? I thought the disease was nearly eradicated.

It *was* almost eradicated, thanks to Sir Alexander Fleming's penicillin and all those antibiotics that have been invented during the last 50 years. The trouble is the "almost" is not enough. Any TB bacteria that survive a heavy dose of antibiotics are going to be the toughest ones. Furthermore, these bacteria will be the founders of a new dynasty of particularly unpleasant superbugs.

It's a case of survival of the fittest?

From the TB bacteria's point of view, yes. And it was this theory – plus the apparent spread of TB in some parts of the world – which led the World Health Organisation to start a three-year investigation into the disease in 1994. Its results were published last week. They made uncomfortable reading. The WHO found "hot zones" where TB is resistant to antibiotics. They include India, Russia, Latvia, Estonia, the Dominican Republic, Argentina and the Ivory Coast. "People are nearly helpless to protect themselves from drug-resistant strains of the disease" in these areas, said WHO.

So millions could die, not only those who live there, but tourists and business travellers too?

It is serious, but not necessarily fatal: only a small proportion of the TB bacteria even in the hot spots are drug-resistant. And if you are rich enough, you can afford to buy more unusual and expensive antibiotics that are still effective.

Surely it's only a matter of time before the bugs become resistant to these antibiotics too. Are you saying that it's all the fault of the antibiotics themselves?

The real problem according to WHO is bad practices by doctors and patients. In many parts of the world, doctors simply prescribe too many antibiotics. Some prescribe antibiotics for colds and 'flu, which is pretty useless as these are viral diseases against which antibiotics do not work. As for the patients, many do not take the drugs properly.

Most dangerously, they will take them until they feel better and then stop. That is the worst thing they could do, as they will have killed off only the weakest bacteria, enough to bring the infection under control, without killing every bug. Patients have also been known to take drugs intermittently; a technique whose most interesting effect is to demonstrate Darwinian evolution within one's own body.

So what does the WHO recommend?

It wants doctors and patients to follow a code of practice it calls DOTS (directly observed treatment, short course). That involved hitting the TB with not one but two antibiotics at the same time to ensure that bacteria resistant to one drug are knocked out by the other. At the same time, patients are watched to make sure they take the medicine properly.

Is that going to work?

WHO has already tried it in some places and is claiming success in preventing drug resistance in Algeria, Chile, Korea, Tanzania and New York City.

But as you pointed out earlier, there's every possibility that these other antibiotics will generate their own drug-resistant strains of TB. In fact WHO last week urged pharmaceutical companies to develop new anti-TB drugs, specifically saying that it would improve the effectiveness of the DOTS programme.

So is the drugs industry going to come up with the goods?

Antibiotics have been out of favour in the industry for decades because it is a better commercial proposition to concentrate on diseases at present incurable, like Alzheimer's disease, and upon diseases that require the patient to take the drug every day for many years, such as asthma.

Having said that, the emergence of drug-resistant strains of TB and of other bugs has tempted drugs companies back into researching the area. There are several new antibiotics going through the years of clinical trials required of them by medical regulators. Newly launched drugs cost a lot of money to buy and so will not be of great use in poor countries.

That sounds familiar.

Drugs companies point out that it costs hundreds of millions of dollars to take a drug from research to the market, and someone has to pay for that. Some of them do, however, have programmes to give away drugs to the poorest nations.

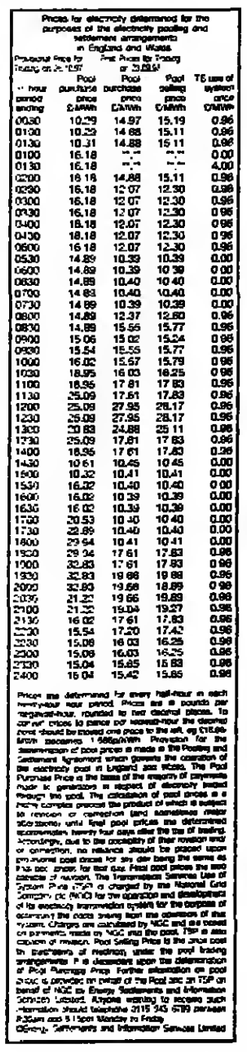
Are there any other diseases running out of control?

You name it. Malaria is possibly the biggest single killer in the world. Then there's Aids, of course. It, too, seems to be coming under control in developed countries while poorer nations cannot afford to treat people.

Is it ever going to end?

It doesn't seem likely, unless you abolish evolution and poverty. However, on rare occasions, diseases are defeated. Smallpox, for example, has been officially declared as eradicated.

Daniel Green



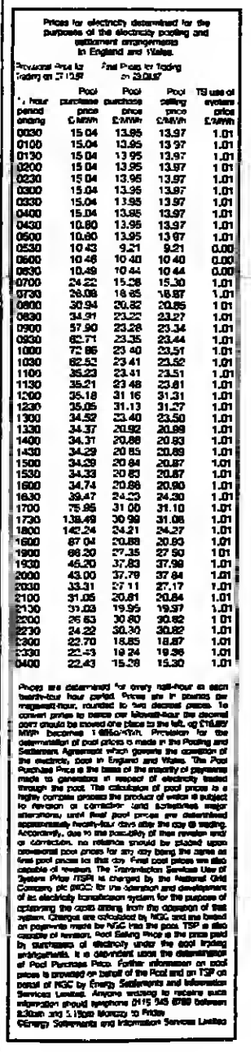
Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 26 10 97 — Final Prices for Trading on 25 10 97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	10.29	14.97	15.19	0.96
0100	10.29	14.88	15.11	0.96
0130	10.31	14.88	15.11	0.96
0200	16.18	--.--	--.--	0.00
0230	16.18	--.--	--.--	4.00
0300	16.18	14.88	15.11	0.96
0330	16.18	12.07	12.30	0.96
0400	16.18	12.07	12.30	0.96
0430	16.18	12.07	12.30	0.96
0500	16.18	12.07	12.30	0.96
0530	14.89	10.39	10.39	0.00
0600	14.89	10.39	10.39	0.00
0630	14.89	10.40	10.40	0.00
0700	14.89	10.40	10.40	0.00
0730	14.89	10.39	10.39	0.00
0800	14.89	12.37	12.80	0.96
0830	14.89	15.56	15.77	0.96
0900	15.06	15.02	15.24	0.96
0930	15.54	15.55	15.77	0.96
1000	16.02	15.67	15.79	0.96
1030	18.95	16.03	16.25	0.96
1100	18.95	17.81	17.83	0.96
1130	25.09	17.61	17.83	0.96
1200	25.09	27.95	28.17	0.96
1230	25.09	27.95	28.17	0.96
1300	20.83	24.88	25.11	0.96
1330	25.09	17.61	17.83	0.96
1400	18.95	17.61	17.83	0.96
1430	10.61	10.45	10.45	0.00
1500	10.32	10.41	10.41	0.00
1530	16.02	10.40	10.40	0.00
1600	16.02	10.39	10.39	0.00
1630	16.02	10.39	10.39	0.00
1700	20.53	10.40	10.40	0.00
1730	20.89	10.40	10.40	0.00
1800	29.64	10.41	10.41	0.00
1830	29.04	17.61	17.83	0.96
1900	32.83	17.61	17.83	0.96
1930	32.83	19.66	19.88	0.96
2000	32.83	19.66	19.89	0.96
2030	21.22	19.66	19.89	0.96
2100	21.22	19.04	19.27	0.96
2130	16.02	17.61	17.83	0.96
2200	15.54	17.20	17.42	0.96
2230	15.06	16.03	16.25	0.96
2300	15.06	16.03	16.25	0.96
2330	15.04	15.65	15.88	0.96
2400	16.04	15.42	15.65	0.96

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.67/MWh becomes 1.567p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also subject to revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of determining the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also subject to revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.

Energy Settlements and Information Services Limited



Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 27 10 97 — Final Prices for Trading on 26 10 97

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	15.04	13.95	13.97	1.01
0100	15.04	13.95	13.97	1.01
0130	15.04	13.95	13.97	1.01
0200	15.04	13.95	13.97	1.01
0230	15.04	13.95	13.97	1.01
0300	15.04	13.95	13.97	1.01
0330	15.04	13.95	13.97	1.01
0400	15.04	13.95	13.97	1.01
0430	10.80	13.95	13.97	1.01
0500	10.80	13.95	13.97	1.01
0530	10.43	9.21	9.21	0.00
0600	10.48	10.40	10.40	0.00
0630	10.49	10.44	10.44	0.00
0700	24.22	15.28	15.30	1.01
0730	28.08	18.85	18.87	1.01
0800	30.94	20.82	20.85	1.01
0830	34.31	23.22	23.27	1.01
0900	37.90	23.28	23.34	1.01
0930	32.71	23.35	23.44	1.01
1000	72.85	23.40	23.51	1.01
1030	82.52	23.41	23.52	1.01
1100	35.23	23.41	23.51	1.01
1130	35.21	23.48	23.61	1.01
1200	35.18	31.16	31.31	1.01
1230	35.05	31.13	31.27	1.01
1300	34.52	23.40	23.50	1.01
1330	34.37	20.92	20.99	1.01
1400	34.31	20.88	20.93	1.01
1430	34.29	20.85	20.89	1.01
1500	34.29	20.84	20.87	1.01
1530	34.33	20.83	20.87	1.01
1600	34.74	20.88	20.90	1.01
1630	39.47	24.23	24.30	1.01
1700	75.95	31.00	31.10	1.01
1730	138.49	30.98	31.08	1.01
1800	142.24	24.21	24.27	1.01
1830	87.04	20.88	20.93	1.01
1900	68.20	27.35	27.50	1.01
1930	46.20	37.83	37.92	1.01
2000	43.00	37.79	37.84	1.01
2030	33.31	27.11	27.17	1.01
2100	31.05	20.81	20.84	1.01
2130	31.03	19.95	19.97	1.01
2200	26.63	30.80	30.82	1.01
2230	24.22	30.30	30.32	1.01
2300	22.70	18.85	18.87	1.01
2330	22.43	19.24	19.26	1.01
2400	22.43	15.28	15.30	1.01

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £15.67/MWh becomes 1.567p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alteration) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also subject to revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of determining the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also subject to revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.

Energy Settlements and Information Services Limited

Gerard Baker · Economics Notebook

Euro-sclerosis in focus

In five years that saw 12m new US jobs, Europe had no net increase

Few US politicians or economic commentators can resist the temptation to pour plentiful amounts of scorn on the performance of the European economy in the last decade.

Their favourite target is the labour market. This summer, as unemployment in Germany reached a postwar high, it fell to a 24-year low in the US.

Why is it that the US economy has created 12m jobs in the last five years, while the continental Europeans have produced almost no net increase in jobs during the same period?

The answer, it has become almost axiomatic to say, is that the labour market in the US is much more flexible than that in Europe.

The combination of high levels of social insurance programs, such as unemployment and housing benefits, relatively powerful trade unions, and high levels of minimum wages, means that European workers are not priced into jobs through lower real wages; and produces a semi-permanent army of unemployed.

In the US, with minimal social protection, weak unions, and a low minimum wage, inequalities may be greater, but at least those who want to work have jobs.

Paul Krugman, professor of economics at Massachusetts Institute of Technology notes that many observers have concluded that "growing US inequality and growing European unemployment are different sides of the same coin."

The axiom has become so universally accepted that even European politicians now routinely call for tha introduction of a degree of US-style flexibility into their labour markets – such action is considered by many an essential prerequisite if economic and monetary union is not to result in massive social and economic dislocation.

But a growing number of economists have begun to challenge the thesis. The problem with the proposition that the US labour market is more flexible is essentially threefold.

As Stephen Nickell and Brian Bell pointed out in an influential analysis last year*, the differential performance of the US and European jobs markets has applied in the last few years at almost all levels of employment.

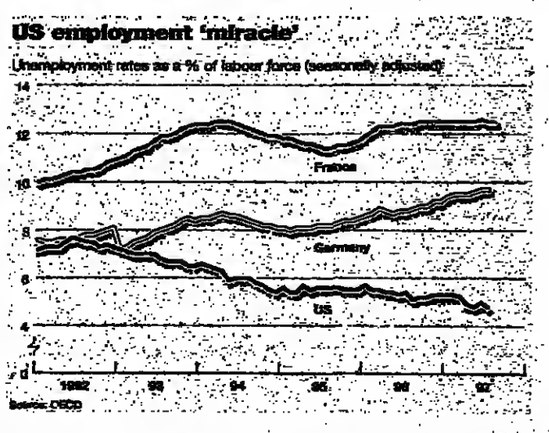
If wage rigidity were the problem, on balance, the rate of growth of higher-paid highly skilled jobs in Europe would have been roughly the same as the rate of growth of similar jobs in the US.

It would be at the bottom end of the wage scale where Europe would have been left behind. But, in fact, better-paying jobs have fared no better relative to the US than the low-paid jobs. "Euro-sclerosis" has occurred throughout the employment hierarchy.

Bell and Nickell concluded that this hypothesis was "inadequate".

Second, the pattern of US jobs growth during the last few decades seems to suggest that it is not especially sensitive to the level of the real wage. Large increases in the working age population have been relatively easily absorbed into employment. Yet that has happened without an obvious impact on real wage levels.

Third, the claim that European labour markets, as a result of social or cultural conditions, inherently inflexible, does not explain why for many years, until the 1990s, the unemployment rate was lower in much of continental Europe than it was in the US.



In only five of the 21 years between 1971 and 1996 did the West German unemployment rate exceed that of the US. It is possible that European jobs markets have become much more rigid in the last five years, or that rigidities in the past mattered less for some reason, but there is little evidence to support either claim.

The relative weakness of labour growth at all levels of employment in Europe leads to alternative explanations for the differential performance. Paul Krueger and Jörn-Steffen Pischke earlier this year argued** that instead of seeking supply-side explanations to the differential labour market performance, we should examine instead the possibility that it represents demand-side contrasts.

In other words, the rigidities that exist in Europe may not, in fact, be in the labour market at all. If there are fundamental economic conditions that depress demand in product or capital markets, these could be responsible for the weak employment growth.

The authors cite one or two possibilities that seem to make intuitive sense. The US has well developed, highly liquid, deep capital markets, that have, especially in the last decade, become extremely efficient at channelling capital efficiently to the right start-up businesses, which have become highly successful job-producers.

But if there is a shortage of capital for entrepreneurs, demand for labour becomes much less sensitive to the level of wages, since no matter how low wages are pushed, entrepreneurs will not be able to create business in the first place.

Similarly, regulations that constrain output will also have the effect of lowering employment levels. Rigid restrictions on hours of operation, planning and zoning and other regulations limit companies' demand for labour, whatever the real wage.

In Germany, where such conditions are far more prevalent than they are in the US, this may have contributed to sluggish jobs growth.

These arguments may be conjectural, but they have a critical advantage over theories about labour market rigidities – namely, that they explain better the sharp divergence between the US and continental Europe during the last decade. During that period, the US certainly seems to have made gains relative to Europe both in terms of improving the functioning of its capital markets and in advancing deregulation.

In other words, US triumphalism about the success of its model may be merited, but politicians and pundits may need to look again at what the strengths of the US system really are.

**Changes in the distribution of wages and unemployment in OECD countries, American Economic Review, papers and proceedings 82.*

***Observations and conjectures on the US employment miracle, National Bureau of Economic Research, Working Paper 6146.*

Coke: is it the real thing?

Coca-Cola strives to rival tap water

The company aims to add to its share of each human being's liquid intake, says **Richard Tomkins**

In English-speaking countries, the C on the kitchen tap stands for cold water and the H for hot. But Coca-Cola boss Roberto Goizueta used to say he would never rest until the C stood for Coke.

Ten days ago Mr Goizueta died without having achieved his ambition, but he had made remarkably strong progress towards it. In any of his 18 years as chairman and chief executive, you might have said that the world had had about as much Coke as it could take. But each year the volumes kept going up.

Last year, sales volumes of company products – Coke, Diet Coke, Fanta, Sprite and the rest – rose by 8 per cent to the equivalent of 329bn bottles world-wide, twice the world-wide industry's rate of growth, and the company's share of the world soft drink market reached 48 per cent.

Last week Coca-Cola's board appointed Douglas Ivester, formerly chief operating officer, as Mr Goizueta's successor, but few industry observers are expecting other than evolutionary changes to a marketing strategy that has proved as successful as Coca-Cola's.

That strategy rests on the unshakeable belief that there is no such thing as a mature market or, to put it another way, that the world offers a virtually infinite opportunity for growth.

"It may sound incongruous from one of the world's most valuable companies, about to celebrate its 111th birthday," Mr Goizueta said in this year's annual report. "But truly, *we are just getting started.*"

He emphasised this point with a statistic. The average person requires an intake of 64 ounces of liquid per day, but around the world Coca-Cola supplies less than 2 ounces per person per day. "We remain resolutely focussed on going after the other 62," Mr Goizueta said.

For Mr Goizueta, it was irrelevant that Coca-Cola already had nearly half the world's soft drink market. Instead, he said, Coca-Cola was focussed on expanding its share of every human being's liquid intake.

"In some cases, that means taking on other international soft drink companies. In other cases, indigenous beverages are our biggest contenders. When it comes to availability and accessibility, however, only one beverage is our true rival: tap water."

In pursuing Mr Goizueta's ambition of replacing water with Coca-Cola, Mr Ivester starts with the advantage that the company's biggest-selling product seems to have almost universal appeal. In spite of worries that Coke would not be accepted in societies with strongly entrenched preferences for other drinks, it outsells the leading tea in Britain, the leading bottled water in France, and the leading coffee in Brazil.

After 111 years of advertising, it also boasts the advantages of being the world's best-known brand name and the world's best-known expression after "okay".

Name recognition, Coca-Cola says, gives the company the opportunity to make its case, but it is down to the company itself to make that case relevant and compelling.

Years ago, advertising might have been seen as the best way to achieve that objective. Indeed, in 1971, Coca-Cola came up with one of the most memorable commercials ever made when it put a multi-ethnic crowd of 200 youngsters on a hilltop in Italy and conducted them in a rendition of *"I'd like to teach the world to sing."*

The advertisement succeeded in emphasising the global appeal of Coca-Cola, and gave a lot of people a sentimental glow. But Mr Goizueta grumbled that it never sold much Coke, and when he became chairman and chief executive in 1981, he started putting more emphasis on distribution.

The idea was simple enough. Coke was already appealing and affordable, so if it could only be placed "within an arm's reach of desire", as the company put it, the product would sell. But the emphasis gradually changed to a much more aggressive goal of achieving "pervasive penetration" in the marketplace: in other words, making Coca-Cola so ubiquitous that, however hard you tried, you could barely avoid it.

Coca-Cola's distribution machine is probably the most powerful and pervasive on the planet. Its bottling partners – the companies that buy soft drink concentrate from Coca-Cola and mix it with water before bottling or canning it for local markets – deploy a fleet of more than 180,000 delivery vehicles and service more than 6.6m vending machines, coolers and dispensers.

Recently Mr Goizueta and Mr Ivester adopted a strategy of further strengthening distribution by buying Coca-Cola's smaller bottlers, investing in them to get them into better shape, then selling them to bigger and more powerful "anchor" bottlers set up on a regional basis. These anchor bottlers have the management and financial resources to match Coca-Cola's growth targets.

Another sign of Coca-Cola's aggressiveness has been its attempts to shove other companies aside. In June it tried to push Cadbury Schweppes's drinks out of thousands of McDonald's fast-food outlets in the US by offering McDonald's franchisees gifts of up to 600 gallons of free soft-drink syrup if they would serve only Coca-Cola products in their restaurants.

The advertising has changed, too. The problem with single-theme advertising, the company decided, was that by talking to everyone at once, it reached nobody very effectively. So four years ago Coca-Cola replaced single-theme advertising with the "Always Coca-Cola" campaign, the most notable feature of which is its sheer diversity. It comprises a portfolio of commercials aimed at a different audiences, from teenagers to pensioners.

There has also been a bigger emphasis on other aspects of marketing. Coca-Cola has been differentiating Coke from other colas by trading on its famous "contour" bottle trademark, achieving surprisingly large increases in sales by using the shape for its plastic Coca-Cola bottles. It is now looking for new ways to exploit its powerful association with the colour red and its famous logo.

John Sicher, editor of Beverage Digest, an industry newsletter, says Coca-Cola's strategy represents "an elegant fusion of marketing and distribution". The strategy, he says, was forged by Mr Goizueta in conjunction with Mr Ivester, and he foresees a seamless transition from the one chairman and chief executive to the next.

Mark Cohen, an analyst at Goldman Sachs, agrees. "You don't have a company that is suffering from poor positioning either of its brands, its systems, its people . . " he says. "If you are taking over leadership of a company that's in that position, I think you have to be extremely careful not to change things too much."

Personal View · **David Thomas**

A revolution in television broadcasting

& Television's equivalent of the desktop publishing revolution that swept through the UK newspaper and printing industry a decade ago has still to take place. But one product demonstrated in Europe this autumn may prove significant.

Trinity is a PC-based device costing less than $5,000 (£3,086). Its manufacturer, Play Inc of California, claims it will do all the cutting, mixing, editing and special effects to turn raw footage into broadcast quality programmes.

Most television post-production work is already based on fairly standard PCs but full-broadcast quality still comes at a price only facilities houses and the largest producers can afford. Play Inc claim that by using a new chip set it has produced a device that, despite its low price, can handle the D1 digital format without compromising quality.

If Trinity can handle D1 successfully and do everything else claimed for it then even small producers would be able to own production facilities.

Trinity has been demonstrated at various trade shows and is now expected to enter the European market early next year. To be accepted it will have to prove in the field that it is reliable and robust enough for live television and that its picture quality is acceptable to broadcasters.

That is the problem. Broadcast quality is not a defined standard but an understanding of the normal quality produced by standard broadcast industry equipment.

In Britain, standards for commercial television are set by the Independent Television Commission. The ITC's attitude, according to Greg Bensberg, the commission's head of engineering policy, is that for most mainstream programmes producers should continue to use "professional" broadcast equipment, a definition which would not normally include £2,000 consumer camcorders.

But low-cost digital production does more than save money. It can also break down the traditional division between those who write, conceive and direct television programmes and the cameramen, recordists and picture editors who operate the equipment.

This division, familiar to anyone who worked in the pre-DTP world of newspapers and magazines, is still normal in television. Although publishers faced opposition to their digital revolution, they never had to satisfy a government regulator that they were using approved typesetting methods.

The other important arbiter of programme quality in Britain has taken a different view. The BBC is responsible both for the content of programmes and their technical quality.

Through policies known variously as Smart Production and Fit for Purpose, it has adopted the new technology with some enthusiasm. Producers have been given support and training and encouraged to explore alternatives to traditional production methods and a series of pilot projects have been funded.

What low-cost PC-based devices make possible is an alternative approach where individual programmes are made by small flexible teams able and willing to share their skills. That is a method of working which should open television up to new people and new ideas.

David Thomas is a free lance television producer

Charities rethink tactics

Softly-softly has been replaced by expertise, says **Meg Carter**

Competition among the UK's 192,000 charities and from the National Lottery is taking its toll. Public giving to charities has fallen by 12 per cent since 1993, according to the National Council for Voluntary Organisations.

Although millions have given to the Diana, Princess of Wales Memorial Fund, other charities are feeling the squeeze and are turning in greater numbers to marketing and branding.

"The type of people working in charities has changed significantly since the early 1990s," says Rowena Bartlett, a director of the Haven Trust, a breast cancer charity to launched this month.

Many marketers made redundant in the recession provided expertise on which charities could draw, she says.

Charities have learned from consumer branding and marketing. "We are now seeing a growing number of incentive schemes, loyalty promotions and even products and services designed specifically to inspire and reward givers," Ms Bartlett believes.

Haven must differentiate itself from the three existing breast cancer charities. It is the only charity dedicated to providing support centres for breast cancer sufferers. That will be central to all communication, she says.

"We can't afford a softly, softly approach – we have to stand out," she says. Haven is launching the UK's first breast cancer charity credit card in partnership with the Bank of Scotland and is considering a mail order service.

"As charities have to become more assertive, there is a danger of compassion fatigue," Ms Bartlett says. That can be countered. "People may not make a direct donation, but they will buy one product over another where that raises money for a good cause."

Such thinking is behind Charity Flowers Direct, a flowers-by-post gift service launched 18 months ago by Age Concern, the British Heart Foundation, Help the Aged, and Imperial Cancer Research. Each invested money for a share of trading profits and 20 per cent of orders made in their name.

Mike Vernon-Powell, a former fund-raising controller for the Royal British Legion who runs Vernon Enterprises, his own charity marketing consultancy, believes such schemes offer opportunities.

The Royal British Legion has altered its logo to update its image. It offers insurance services and a branded banking card and has a telephone discount scheme, Poppy Card, for Remembrance Day on November 9. A branded music CD is also planned.

"Everyone is out there trying to tap public interest through direct marketing, legacies, and traditional tin-rattling. The only way ahead lies in developing branding strategies, exploiting the logo and the image of their organisations, and forming commercial partnerships," says Mr Vernon-Powell.

Tim Jackson · On the Web

Wanted: an e-mail bridge

Electronic mail is a double-edged sword. On the one hand, it is a wondrously quick, convenient and cheap form of communication. On the other, it puts people who rely on it in a bind when they cannot access mail.

They are expected to respond to messages in a day, even though it is not always possible to hook up a notebook PC to the internet while on the road.

Hence the need for a service that can bridge the new world of e-mail and the old world of the public phone. This column has already covered technologies that turn e-mails to faxes and vice versa; but most useful would be a service that reads your incoming e-mails to you over the phone.

Last week, a company called E-Now launched precisely that service. It allows you to dial a toll-free number, key in a password, and have first the message summaries and then the full texts read out.

E-Now's basic service, which costs $12 (£7.40) a month for 20 free minutes and then 15 cents a minute thereafter, is delivered by a piece of software that does text-to-speech conversion and can accept telephone touch-tone commands.

The company also offers premium services provided by human beings. For $1, an E-Now operator will forward an e-mail to a colleague or read text the software cannot handle. For $2, the operator will send a reply dictated by you. For $3, the operator will fax up to three incoming messages to a destination of your choice.

E-Now relies for its existence on the fact that the POP3 [sic] mail protocol commonly used on the internet keeps incoming messages on a server at your internet service provider or company, and allows you to read those messages from anywhere on the internet by entering a password.

That makes it possible for a customer to give the password to E-Now and then to listen to incoming messages without making special arrangements either before or after. The messages are left in place and can be downloaded after reading to your computer normally.

The system has a disadvantage, however. Because the POP3 protocol is not used by AOL or CompuServe, E-Now cannot provide service to users of the two largest providers of dial-up e-mail in the US.

The innovator behind E-Now is Thomas Wagner, 34, a Californian with an MBA from Wharton and experience in both consulting and the industrial controls market. "It started, like a lot of things," he explained, "as a service that I wanted to have. When you only have three or four minutes between meetings to retrieve your mail, you want something real simple."

Wagner found a software company in the Midwest that had licensed a text-to-speech converter from Digital Equipment Corporation, and had written the interface allowing e-mail to be retrieved over the phone. Wagner had to negotiate special pricing for national access across the internet.

Several ISPs have offered the system for some time. Premiere Worldlink, a company that sells calling-card and value-added services, does e-mail-to-phone. And *www.mail-call.com* offers a similar, less slickly marketed service.

E-Now is an unusual start-up. Wagner eschewed Silicon Valley altogether. He is based in a small town several hundred miles further south, called Ojai (as in ochaye, not Simpson).

Wagner opened E-Now with modest funding from one private investor. He has five staff. He hired a local designer to do web site (*www.e-now.com*) and business cards. The plan is to reach 10,000 customers within a year.

The software worked better than I expected. One e-mail consisted of the lyrics to a Beach Boys song. Another message was intelligible even when it said a client "needs to understand the post-installation configuration of the online interface."

The strategy issue is how long E-Now's window will remain open. Reading e-mail on the road is getting easier as cellular modems fall in price and ISPs set up roaming services. But the rising tide of e-mail may itself render the service less convenient. If you get 100 e-mails a day, scanning the headers over the phone could take 10 minutes or more.

But E-Now is a neat idea that has been well-executed. It deserves some success.

tim.jackson@pobox.com

Winning minds, not hearts

The principle of shareholder value is more attractive than its practice, says **Tony Jackson**

The gospel of shareholder value, it seems, rolls ever onward. Its latest adherent is Mick Newmarch, former chief executive of the UK's Prudential insurance group, who has just been appointed adviser to consultants Price Waterhouse on the subject. "There's no doubt in my mind", he says, "that the advance of shareholder value is inevitable."

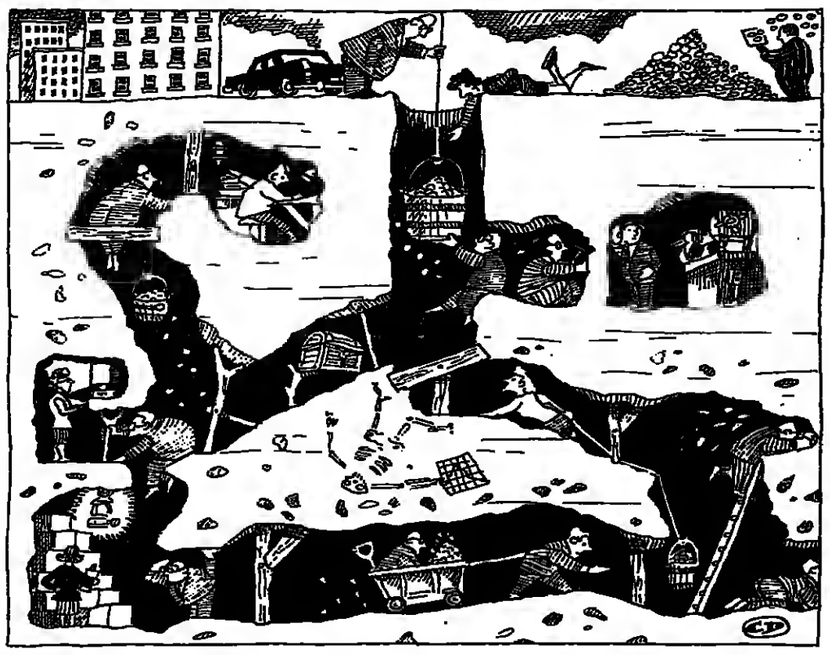
But if European companies are marching under the banner, it is unclear how far they have taken the teaching to their hearts.

Another consultant, KPMG, has just done a survey of European companies, asking what their motive was in launching takeovers or mergers.* Nearly half said it was to raise their market share. Only 2 per cent mentioned increasing shareholder value. Yet another survey, from PA Consulting Group, asked companies in the UK and Ireland what they thought of managing for shareholder value.** Almost all – 96 per cent – thought it a good thing in principle.

Rather fewer had set up processes to achieve it – for instance, by establishing their cost of equity. Fewer still had undertaken detailed actions, such as ensuring all employees were shareholders, or getting rid of businesses which could be shown to destroy shareholder value.

According to PA, there is a clear link between the level of a company's commitment and the performance of its shares. Over a three-year period, those companies which paid only lip-service to the principle showed an average total shareholder return of 15 per cent a year – a shade below the market overall. Companies which had put processes in place, but had not yet taken specific actions, showed a return of 18 per cent. Those which had gone the whole hog returned 21 per cent.

The idea that many companies accept the principle but dodge the practice is echoed at Price Waterhouse. Philip Wright, head of the firm's shareholder value division, says, "If you talk to the people on the audit side of our business, they'll say they've never heard of it. That's because they deal with corporate controllers. The talk about shareholder value is still at board level."



The claim of the consultants is nothing if not ambitious: that the gospel of shareholder value should permeate all the activities of a business. Companies should delve into their most detailed processes and smallest business units, examining whether the cost of capital is being recovered everywhere.

This makes extra work for the consultants. There is also some evidence (see below) that rigid adherence to shareholder value can be counter-productive.

At a less root-and-branch level, though, certain general themes are emerging. First, the consultants say, shareholder value analysis makes it worryingly plain that companies are still applying excessive hurdle rates of return when contemplating investment.

Michael Donnellan of Price Waterhouse says "one FTSE company I worked with has hurdle rates of 18 per cent and a cost of capital of 10 per cent. When we probed on this, it turned out their rationale was that since a lot of projects failed, this was a kind of insurance. As a result, some excellent projects were being starved."

More generally, adds Mr Newmarch – a former senior fund manager – companies are setting themselves higher hurdles than their shareholders require.

When it comes to broader strategy, it seems, the problem can be the opposite: that companies embrace ambitious targets without measuring their return. Steve Frobisher of PA Consulting says, "We've come across so many companies which say their goal is to double their market share in three years, or raise their global sales to X per cent of the total. That's fine, except in some cases you might destroy shareholder value doing that."

Conversely, the goals themselves might be unrealistic. Mr Donnellan recalls working last year with a Japanese multinational which had declared very ambitious targets for world market share. "We ran through the models", he says, "and they suggested that in that case, the share price should be double what it actually was. "So we asked the managers if they really thought their targets were achievable. They said no, not really – it was just something to aim for."

This brings us to the final broad theme of the consultants: that companies will not only have to work out the consequences of their strategies in terms of shareholder value, but will have to disclose their findings to the investment community. This is not a matter of inside information. Rather, it involves defining targets in operational detail.

Mr Donnellan gives the example of a US multinational which had the stated goal of reducing its cost of goods sold by 20 per cent over the next two years. His firm examined the consequences for one subsidiary, a Swiss pharmaceutical company. The goal involved cutting the level of inventory in half. When run through the Price Waterhouse computer model, this brought an enormous surge in the order backlog. The resulting slump in sales slashed the equity value of the subsidiary.

The point of the example, Mr Donnellan says, is that the big broking firms now have similar computing models. So when companies make grand promises, they will be under increasing pressure from brokers and fund managers to spell out the operational consequences.

It seems clear that some companies, at least, will find this disconcerting. Mr Wright of Price Waterhouse says "I was talking to a finance director the other day who was just back in the UK after three years away.

"He had been meeting some brokers' analysts, and he said 'They kept asking these curious questions like what's your cost of capital, what's your hurdle rate and what's your competitive advantage period? I couldn't tell them'."

*Colouring in the Map: KPMG, tel: 0171 311 1000.
**Managing for shareholder value: PA Consulting Group, tel: 0171 730 9000.

Scott (left) and First: "We're juice guys"

PARTNERS

Nantucket Allserve

It's [illegible] of Nantucket [illegible] one of the [illegible] fastest-growing companies in the US. [illegible] created a marketing slogan out of its alternative management style. Captions on its Nantucket Nectars brand juice bottles read: "We're juice guys. We don't wear ties to work."

Yet the offices of Nantucket Allserve are as staid as a generation-old law firm. Housed in a former mens' club near Harvard University in Cambridge, Massachusetts, rooms are furnished with antiques. Executives occupy their own private offices. "Like a home, an office needs both private and public spaces," explains Tom Scott, together with his friend, Tom First, Scott founded Nantucket Allserve eight years ago and has overseen the company's rapid climb to success.

Scott says he believes the move to flatter organisations in recent years has given many corporations a fillip vessels of openness and creativity. "Now people walk around at companies that are supposed to be cutting edge work environments, and everyone is as stiff as a board," he explains. "Employees don't [illegible] feel [illegible] because [illegible] they wear jeans."

Nantucket Allserve does have its own share of feel-good management techniques. For example, each week, workers at headquarters are assigned a "phone call", a salesperson in another part of the country that other wise has little contact with the home office.

The two Toms say their management style has grown organically. "People think it's cute that we take our dogs to work, but it wasn't calculated as a marketing ploy," says First. "It's that we used to work in a rat-hole, where no one noticed if there was a dog. The practice just continued as we expanded."

With no business background, the two friends run their company on gut instinct and simple trial and error. Most of the executives at the company have had no formal business training either, a fact First counts as an advantage. "At the beginning, we took people right out of college because we were paying shitty sums. The good thing is that they didn't bring any baggage with them about how a company should be run, so we could do things our way."

Nantucket Nectars' lightning success has made the two Toms minor celebrities in management circles. In eight years, the company has grown from a home-blender operation into an enterprise with nearly $50m in annual sales and 100 employees. That's still small compared to the giants of the global beverage business, but in certain geographical areas, Nantucket Nectars is a force to be reckoned with.

The two entrepreneurs started their enterprise in Nantucket, a well-known resort island off the coast of Massachusetts. After graduating from Brown University, they spent the summer doing odd jobs around Nantucket. They enjoyed themselves so much they stayed.

In the middle of winter, when they had little else to do, First decided to reconstruct a memorable fruit drink he'd had in Spain. Their lucky break came when they sold some samples to a millionaire whose yacht they were cleaning. He decided to give them $500,000 to take the venture forward.

Victoria Griffith

Zeal tempered by sensitivity

Value-based management can have many pitfalls for the unwary

This dangers of excessive zeal in value-based management are illustrated by one of its earliest converts, the US electrical group Westinghouse.

In 1975, when the company was at a low point in its fortunes, its new chief executive Robert Kirby instituted a system known as Vabastram (value-based strategic management).

As described in a recent book*, Vabastram was remarkably close to today's shareholder value techniques. Each business unit had an equity value assigned to it, against which the performance of managers was measured. The system was also used to evaluate strategies, and to decide which businesses should be sold or kept, on the basis of future cash flow.

Over the following decade, the Westinghouse share price outperformed the US market by a factor of three. It then went into a disastrous decline, from which it has scarcely recovered.

The book quotes a veteran Westinghouse manager on what went wrong. "Vabastram was basically a Wall Street play," he says. "But its main internal effect was to force managers to take a very short-term view in order to maximise their impact on stock value on a quarterly basis.

"As a manager," he adds, "I became particularly troubled when we stopped being concerned about capitalising on our strong market positions or defending our leading market shares."

Professor Christopher Bartlett of Harvard Business School, one of the book's authors, says "Vabastram was designed to reduce each piece of the business to the value it had for the stock price. It certainly had the effect of holding managers' feet to the fire. But those who live by the market die by the market."

For a long time, he says, economists have argued over the respective strengths of markets and companies in wealth creation. Markets are certainly better at managing portfolios; however, companies can create value in other ways, such as exploiting knowledge by spreading it through their networks.

The danger is that by turning themselves into portfolio managers, companies can end up conducting their business in separate compartments. ITT of the US and Hanson of the UK, both specialists in portfolio management, have recently been broken up. Westinghouse itself is selling off its manufacturing businesses and specialising in media.

The point is not that managing for shareholder value is harmful. On the contrary, it can be a highly beneficial discipline, as it was for some years at Westinghouse. But it can be dangerous as a ruling principle.

"The reason managers are paid so much," Prof Bartlett says, "is that they have to manage complexity. If you're using those techniques, you've got to do it sensitively.

"Otherwise, if you've only got a hammer, everything starts to look like a nail."

**The Individualised Corporation, by Sumantra Ghoshal and Christopher A. Bartlett.*

TJ

Sabotage and plot, an everyday tale of office life

Game playing can have far-reaching consequences, says **Diane Summers**

It's three in the morning and you're lying in bed grinding your teeth. Yesterday's management team meeting was no different from usual. That was the trouble – every week it's predictably awful.

The point of the meetings seems to be to rubbish other people's ideas while avoiding being made to look a fool. People agree to do things, but by the next week it's clear they've done nothing or interpreted decisions to fit their own agendas. It isn't until the meetings are over that people say what they really think – at the coffee machine, where they plot how they can sabotage what had apparently just been agreed.

Familiar? It's a wearing pattern for those involved, says Beverley Stone, corporate psychologist with London-based consultants Nicholson McBride. But, even worse, such behaviour at management level can corrupt an entire company.

"When the rest of the organisation sees such ego-defensive game-playing they feel they can perpetuate the same attitudes, values and behaviour throughout the organisation, and a culture of interdepartmental non-co-operation develops," she says.

The consequences, spelt out in a book published this week*, can be that individuals become:

- Unfocused, spending their energy on getting co-operation from other game-players inside the organisation, rather than focusing on achieving customer satisfaction
- Time-wasting, as they discuss the latest consequence of corporate politicking with co-sufferers
- Embattled, forming gangs with like-minded individuals to fight "enemy" departments
- Demoralised. The saboteurs, she argues, were demoralised in the first place, otherwise they would not have felt the need to play games. Eventually those on the receiving end feel isolated and unsupported, so they also become demoralised
- Revengeful, or withdrawn, spending time and energy on plotting how to get back at the saboteurs.

Some organisations have attempted to break this cycle with change programmes and workshops intended to build a culture of trust and co-operation. But, says Ms Stone, "The team spirit and resolutions made in most residential workshops are like a drop of ink in a bath – very clear and concentrated the following Monday morning but within days they dissipate until they can no longer be seen". For once back in the old environment, the pressures of work and game-playing contaminate the good intentions.

Such experiences are worse than not raising expectations in the first place, she argues. "They only go to reinforce the suspicion that nothing will change, that individuals are powerless to make the change and that until senior management commits to changing *itself*, organisational life will go on as before."

But Ms Stone asserts that blaming those at the top is a cop-out: it is up to each individual at work to challenge game playing and bad behaviour. Most people keep their heads down because they fear retaliation, do not want to be disliked and have little faith that they can change anything; they may even worry they may lose their job, she says. The "catastrophe fantasies" that stop people acting rarely come to pass, she says. "Think about the five rising stars in your organisation. Are they conformists or do they speak out and take calculated risks? Given it's not going to start at the top, don't waste your life waiting for someone to make it safe."

If challenging some of the game-playing that goes on among senior management sounds too scary, here is a practical example at team level to get started on. Ms Stone tells an everyday story of manipulation involving Carol Charmers and a member of her staff, Stephen Casey. Most people will be able to substitute colleagues' names without too much difficulty – although they may be sceptical that changing someone's behaviour is as easy as the tale suggests.

Stephen was happy to do the interesting parts of his job but would not complete his boring tasks. On numerous occasions Carol confronted Stephen about the unfinished tasks. He would smile charmingly, apologise and promise to finish his work, yet he never did.

Carol needed to label the game Stephen was playing – manipulation – rather than talk about the uncompleted work, says Ms Stone. "Stephen had spent his life manipulating people by being charming and since this habitual form of behaviour had always worked, he was probably no longer conscious that he was doing it. She could tell him that she felt manipulated and didn't like it."

It doesn't really matter what he says when he is asked what can be done because, "The purpose of the conversation is to bring the game into the open," she says. And, as a result, it would be difficult for Stephen to play the same game again.

**Confronting Company Politics, by Beverley Stone, is published on Friday by Macmillan Business, £25. Available from FT Bookshop by ringing FreeCall 0500 500 635 (UK) or +44 181 324 5511 (outside the UK). Free p&p in UK.*

BUSINESS EDUCATION

Danish group's clean start

Hilary Barnes looks at how ISS outsourced its management training

It is not a shortage of cleaners that holds back ISS International Service Systems, the large Danish-based international contract cleaning group. "Management is our biggest bottleneck," Mr Waldemar Schmidt, chief executive officer, emphasises again and again.

As ISS has evolved over the past 35 years from a small, Danish domestic cleaning company into one of the world's largest, demands on management skills have grown exponentially. It is now moving into sophisticated, higher-margin cleaning, such as the food industry, hospitals and airport terminals, and needs people who can manage large and complex contracts.

To meet that need, the group this year took a new approach to management training. Previously, training was largely in-house. But Mr Schmidt decided that a company which lives on other companies' outsourced work could do some outsourcing of its own.

Ha turned to three professors from the Harvard Business School, Jim Hesketh, Gary Lovement and Jeffrey Rayport, all specialists in service industries. He is looking towards a continuing co-operation with the American academics.

It is not altogether a coincidence that the call to Harvard came after a traumatic year for ISS. In 1996 accounting irregularities and under-provisioning for self-insurance claims were discovered at the group's US subsidiary, ISS Inc. The group was forced to take losses of DKr2bn (£180m), which came close to halving its equity capital.

The new atratagy for ISS requires clear visions and clear goals. To help clarify these the group'a top 50 managers were brought together from all over the world at the ISS group headquarters near Copenhagen for four days in May, for a course on "Achieving Service Breakthroughs" with the Harvard trio.

Mr Schmidt aays the initial course had three objectives:

- To update the management in leading edge service management know-how and the relevant tools in strategic management.
- To provide part of the team planning process for the new group strategy.
- To create relationships and networks.

Tha course, four 12-hour deya, plus casework to be read for the following day, was intensive and exhausting, Mr Schmidt and his colleagues willingly concede.

Its basis was case studies of successful service industry breakthroughs, relating mainly to US companies.

The technique adopted by the professors was described by Colin Narborough, vice president in charge of corporate communications, as "quite confrontational". Participants were forced to take a view on cases under discussion, typically with one teacher adopting a positive attitude and a colleague arguing the contrarian view – the good cop/bad cop routine. Workshops were set up in addition to the main course study periods, in which a group of six to eight people could look at a case and its lessons. The case studies and the presentations which resulted from the groups' pooled ideas had to be completed under extreme time pressure.

"It made you look at yourself as an organisation, comprising people from very different environments, who do not know each other very well," said Mr Narborough. "It was a good process for team-building."

The ISS course was tailor-made for the group through co-operation between the Harvard professors and ISS's human resources managers. It focused specifically on service industries and companies which have made startling and successful management innovations and the ways in which re-thinking business ideas can lead to innovation.

This autumn follow-up courses were held to carry the process further into the organisation to involve another 50 managers.

Later this week Mr Schmidt is due to present ISS's new strategy plan to employees, investment analysts and the business media. They will make their own judgment of the work done by professors Hesketh, Lovement and Rayport, and the ideas and interaction between ISS's managers which the course generated.

Meanwhile, the group is waiting expectantly for one of the professors' next case studies – the case of ISS.

Screen test gives GMAT candidates a fright

Compnter phobia has struck students preparing for the American Graduate Management Admissions Test.

GMAT, the entry test for most reputable business schools, has traditionally been paper-based but this month a computer version has been introduced for candidates in North America and many other parts of the world.

The Graduate Management Admission Council, which sets the test, noted a big surge in applications in June – the last date for the old paper-based test. "There was a fear of the unknown" says David Wilson, president of GMAC.

Matt Symonds of Kaplan, ona of the organisations which helps students prepare for the test, says it is surprising how many candidates for an MBA are unfamiliar with keyboards.

But feed-back from from worldwide testing sites suggested students had few problems despite their anxieties, says Mr Wilson.

More worrying for students, perhaps, is the changed format of the test. Traditionally, it started with simple questions and progressed to harder ones. Students could if they wished quickly answer all the questions they found easy and then devote more time to the ones they found more difficult.

Under the new system, the computer screen displays one question at a time. The first is always of medium difficulty. The selection of each question thereafter is determined by the candidate's response to previous questions. If a candidate gets the first question right he goes on to something slightly harder, and so on.

Tha test markers argue that the adaptive element of the test makes it more accurate, given that the computer is assessing the candidate's threshold with each question. A candidate's score is based more on quality than quantity, determined by how many of the difficult questions he or she gets right. Answering the first five questions correctly is critical.

In addition, fees were lost if a candidate was unable to sit the test after a booking was made. Now tests can be re-scheduled with no loss of fee. This new flexibility, argues Wilson, justifies the increase in the fee for the test – which has risen from $94 (£58) to $160.

- Applying to take the GMAT is fairly straightforward. Administration is undertaken by the Educational Testing Service (PO Box 6108, Princeton, NJ08541, USA). A registration form can be obtained from the Service, together with the GMAT Bulletin of Information, which details test centres and dates and gives some sample questions.

Lisa Wood

NEWS FROM CAMPUS

Wharton MBAs in demand

The 1997 class at the university of Pennsylvania's Wharton school broke all records for the business school in terms of job offers and salaries.

Graduates for the year received median starting packages of $130,000 (£80,247) comprising starting salaries of $75,000 plus bounses.

Of the 764 graduates 30 per cent were from outside the US. Forty-three per cent of the class accepted job offers with international responsibility and 21 per cent accepted positions outside the US.

While consultancy and investment banking are still the most popular businesses for Wharton's MBAs, the number of graduates going into high-tech industries is growing rapidly.

Wharton: www.wharton.upenn.edu/

Fair chance for students

The UK's Association of MBAs is holding its annual MBA fair in London on October 29. The fair is intended for would-be MBA students who want to talk to the schools represented at the event. This year those schools include Harvard, Insead, MIT and London business school.

To register call: UK, 0800 854 869

- The annual London Language Show will take place from 6 November at Hammersmith, in west London. As part of the event, organised by Brintex, there will be free seminars run by the National Business Language Information Service and the Department of Trade and Industry to help organisations handle language training within their companies.

Brintex: UK, (0)171 973 6401

Entrepreneurs start early

The world's top business schools are flooded with postgraduate students who want to study courses on entrepreneurship. But one British academic believes the problem should be tackled at undergraduate rather than postgraduate level and that all students should be encouraged to be entrepreneurial.

Bill Bolton, founder of Cambridge university's St John's Innovation Centre, believes university systems which focus on analytical skills can repress entrepreneurial instincts. He argues that universities should establish entrepreneur schools to stimulate these skills.

Such a system is already being adopted in some universities in Argentina and Brazil. Along with Dutch-born colleague Martijn Mugge, Mr Bolton will be holding a five-day conference in December to further his ideas.

For information: UK, (0)114 221 1815

School dinners: spill the beans

Never mind the course content, does your business school come up to scratch in tha catering and hospitality departments? This is a reminder to those attending business schools, past and present, that we would like to hear from you about the facilities at your chosen business school. Are they wonderful, are they grim or are yon just too busy to notice?

Fax: UK, (0)171 873 3950

Information for News from Campus should be sent to Della Bradshaw, FT, Number One Southwark Bridge, London SE1 9HL
Tel: 44 171 873 4673 Fax: 44 171 873 3950

LEGAL NOTICES

NOTICE

TO: The Holders of 7¾ Convertible Debentures Due March 1, 1998
The Holders of 6 7/8% Convertible Debentures Due November 15, 1998

Meditrust and Meditrust Acquisition Company (together, "Meditrust") have entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") with Santa Anita Realty Enterprises, Inc. and Santa Anita Operating Company (together "Santa Anita"). When the transaction is consummated, Meditrust will be merged into Santa Anita, and shareholders of Meditrust will receive 1.2016 paired common shares of Santa Anita for each share of Meditrust they own in a tax-free exchange of shares. Upon completion of the merger, the surviving corporations will be called Meditrust Corporation and Meditrust Operating Company. It is anticipated that the merger will be effective on November 5, 1997, on which date, Meditrust shareholders will be entitled to exchange their shares of Meditrust for paired shares of Meditrust Corporation and Meditrust Operating Company common stock.

Pursuant to the terms of the Fiscal Agenty Agreements governing the convertible debentures of Meditrust, Meditrust Corporation will execute amendments to each of the Fiscal Agency agreements which will provide that the holders of the convertible debentures will have the right to receive, upon conversion of their securities, 1.2016 shares of Meditrust Corporation and Meditrust Operating Company each, for each share of Meditrust they would have been entitled to receive had they converted their securities immediately prior to the merger.

Questions concerning the merger and the convertible debentures should be directed to Michael S. Benjamin, Esq., Senior Vice President and General Counsel, Meditrust, 197 First Avenue, Needham, Massachusetts, (781) 433-6000.

BUSINESS TRAVEL

Travel Update · Roger Bray

Fly in comfort

A French manufacturer is developing an "intelligent seat" for first-class passengers which slowly moulds itself to the shape of their bodies during the flight. Information transmitted through sensors is compared with stored data to provide the optimum blend of comfort and physical support. The aim is to ensure that travellers who sleep in awkward positions do not suffer problems in vulnerable areas such as the lower back. The technology was pioneered by Ergoresearch & Consulting, a Montreal company. The manufacturer is Sogerma, a subsidiary of Aérospatiale.

Sapporo non-stop

KLM launches two new services to Japan this week. From tomorrow it will fly twice a week from Amsterdam's Schiphol airport to Nagoya, west of Tokyo, and Sapporo, capital of Hokkaido.

Tax reminder

Air passenger duty on flights from UK airports doubles on Saturday. Passengers to domestic or EU destinations will now pay £10. Those flying further afield will be charged £20. The lower rate will also apply to passengers heading for Basle, Geneva, Iceland, Norway, the Azores, the Balearic and Canary Islands, Corsica, the Faroe Islands, Madeira, Sardinia, Sicily, the Channel Islands and Gibraltar.

Free breakfast

Forte is offering free continental or buffet breakfasts to corporate clients at 260 hotels. The move follows research which showed regular business guests wanted tangible rewards as well as reduced rates.

London links

New flights have been launched this week from two of London's smaller airports. Air Engiadina, the Swiss regional carrier, has started flying three times a week from London City Airport to Vienna via Berne. And AZZURRAair is operating daily services from Luton to Bergamo.

Cholera alert

Outbreaks of cholera and hepatitis A are reported in Kazakhstan. Both diseases are affecting the southern part of the central Asian country. To reduce the risk of cholera, which has hit an area around Shymkent, travellers are advised to drink only bottled water and to steer clear of food such as unpeeled fruit or raw vegetables.

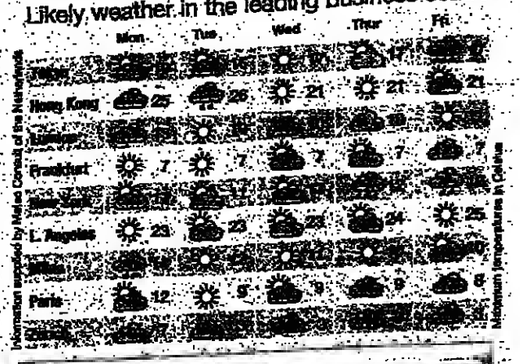
Code share deal

Flights between New Zealand and Singapore have increased following the launch of a code sharing deal between the two countries' main airlines. Air New Zealand and Singapore airlines have agreed to take seats on each other's aircraft. The former now operates daily, non-stop services between Christchurch and Singapore. The latter flies the Singapore-Auckland route.

Fare deal

Denmark's Maersk Air has introduced a "season ticket" for UK customers, which it claims cuts fares by up to 28 per cent. Passengers will buy books of coupons, valid for 20 one-way flights between London Gatwick and either Copenhagen or Billund. For travellers to the Danish capital it costs £3,500 in business class, £3,100 in economy. To Billund costs £3,200 and £2,900 respectively.

Likely weather in the leading business centres



24 HOURS A DAY

Airlines are offering live TV, gambling and video on demand, says **Updesh Kapur**

That's in-flight entertainment

Business travellers have always looked et flight frequency, comfortable seats, food quality, loyalty programmes, safety and good all-round service when choosing which airline to fly with. Now airlines are wooing passengers with in-flight entertainment.

Gone are the days when there was only a magazine stowed in the seat pouch and a single bulkhead screen serving up to 100 passengers. Figures from the World Airline Entertainment Association show that total airline expenditure on in-flight entertainment and on-board communicetion has more than tripled over the past six years, from $400m in 1992 to $1.3bn (£800m) this year.

Individual arm-rest television monitors in business and first-class seats on medium and long-haul aircraft are common. Stereo sound, noise-reduction headphones and a variety of video and music channels have become part of the in-flight entertainment experience.

Some carriers are launching products that are likely to become industry-standard. Live radio and TV broadcasts from ground to air, audio and video on demand, on-board gaming and electronic shopping are already being tested to overcome technical problems.

Singapore Airlines has introduced an entertainment system called Krisworld in every seat of all three cabins of its long-haul aircraft. The system offers 23 video channels, of which 14 are dedicated to films, while the rest cover comedy, science, sports, news, arts and games. There are an additional 12 audio channels.

SIA is also testing interactive systems, which give passengers greater control. On the Singapore-Tokyo route, SIA is trying out eudio and video on demand: first and business-class passengers can listen to or watch a programme, with pause, rewind and forward functions, et any time during the flight.

In-flight gaming may also begin by the end of the year, with SIA planning to offer poker, hleckjack and slot machines, as well as free PC-based games, all accessible through the seat monitors.

There have been regulatory and technical problems with in-flight gaming, but these have been resolved. Passengers will be able to place bets of up to $350 per credit card swiped through a handset, which also doubles as a telephone and TV control unit, with winnings limited to $3,500.

"It is all about offering passengers choice," says Yeoh Teng Kwong, SIA's manager of in-flight entertainment. "Although we offer passengers e range of programming, there is a feeling they need flexibility to be eble to do things wben they want to."

He adds: "The feedback we get from first and business-class passengers is that they want these facilities. They are on board for several hours and want to spend quality time, which means enjoying the entertainment available rather than doing office work."

British Airways, which has also invested heavily in in-flight entertainment, will probably launch an interactive product next year. As an interim measure, BA offers first and business-class passengers a variety of programming, with premium-class trevellers eble to choose movie cassettes from a large on-board library.

Electronic shopping, which SIA hopes to offer next year, is on BA's wish-list, as is audio and video on demand, gaming, and hotel, flight and car reservation capabilities.

Swissair, which this year became the first airline to introduce gaming, provides multi-channel videos and large touch-screen monitors. It, too, is considering electronic shopping.

Live television and radio broadcasts will be the biggest coup for airlines, when they become available over the next two years. Reuters, the news agency, already offers regular updates of general and financial news, which are relayed by satellite to some airlines.

Delta Air Lines has tested live TV, broadcasting news, entertainment and big sporting events on one US domestic aircraft last year. "We found passengers were more interested in live news for the first half hour, then they wanted other programmes," says the airline.

From early next year, Delta will move from four to 12 channels and is considering pay-per-view for economy passengers, though premium-class travellers will be given eccess free of charge.

With the growth of in-flight enterteinment, industry observers believe the potential for companies to edvertise and capture the ettention of e select andience on-board is lucrative.

Charles Vine, marketing director of Spafax, an in-flight media specialist, says: "There is clearly a trend towards more programming on-board which means advertisers can now be more selective, targeting specific type of passengers through the choice of channels available."

Overbookers may be left behind

Gillian Upton on a code that will hit people who make multiple reservations with airlines

The good news for frequent flyers next year is that waiting lists for overbooked flights should improve. The bad news for those who partly cause the overbooked flights in the first place by multiple bookings for the same day is they will have to rethink seriously how they do business.

Travellers in the habit of booking the 4pm, 5pm and 6pm flight on the same day from say, Frankfurt to London, not knowing what time their meeting will finish, could find that all bookings in the same name have been cancelled.

The nasty shock about to hit business travellers is e European Union code of conduct for computerised reservation systems (CRSs), which comes into effect in January.

It places an obligation on the travel agent when using e CRS not to make duplicate reservetions for the same passenger. Any breaches could result in e fine – although there appears to be no mechanism to enforce compliance.

It seems likely that the airlines' own get-tough epproech may heve an effect. British Airways, which claims to have more than 10,000 multiple bookings e week, is planning to step up action from next month when an eutomated system begins to build up a profiles of rontes, passengers and agents.

"The volume is such now that it warrants something being done about it," says Alan Hughes, BA distribution support manager. "We have e lot of empty seats we want to turn into revenne. Our beef is not with the agent, it's the consumer who drives this." British Midland will not be drawn, referring to it as a "sensitive issue".

The code is the result of successful lobbying in Brussels by airlines tired of making CRS transactions that do not result in pessengers travelling. The CRS charges airlines £2.50 on average for every leg of the journey booked.

Multiple bookings are prevalent on short routes, such as Brussels, Paris and Amsterdam to London, and at particular times, such as Friday afternoons. But BA believes it is also common on transatlantic routes.

Richard Cornwell, senior manager, travel and functions at Price Weterhouse, says: "As e general rule we do not allow multiple bookings but sometimes there is a genuine need.

"It's the people attending conferences and one-off business meetings. Conferences never finish on time and we've developed the pattern of booking two or three flights. It's not uncommon for us and it's et our instigation, not our agents.

"If the rules change I suspect we shall be looking at ways around it, such as buying multiple tickets which will be a lot more hassle and paperwork."

Devid Randall, head of corporate and strategic solntions et Citibank, said: "Clearly it would affect some flexibility and we need that flexibility sometimes."

The Guild of Business Travel Agents, however, believes the code may receive a lukewarm reception. "Most agents will do what the customer wants. In reality the EU isn't going to police it," says Roger Thomson, chairman of the GBTA technology working party.

THE WEEK AHEAD

UK COMPANIES

■ TODAY

COMPANY MEETINGS:
Murray Inc Tst, Grocers Hall, Princes St, EC, 11.15
Syndicate Capital Tst, Coopers Hall, 13, Devonshire Sq, EC, 12.00
BOARD MEETINGS:
Final:
UPF
Interims:
Geo Interactive
Old English Pub
Silk Inds
Walker,Crips,Weddle

■ TOMORROW

COMPANY MEETINGS:
Charterhouse Communications, Hon Artillery Co, Armoury House, City Rd, EC, 12.00
Compel, Exchange House, Primrose St, EC, 11.30
Finsbury Underwriting Inv Tst, Coopers Hall, 13, Devonshire Sq, EC, 11.30
Freeport Leisure, The Registry, Royal Mint Court, E.C., 10.00
Go-Ahead, Vermont Hotel, Castle Garth, Newcastle, 4.00
Grosvenor Inns, Slug & Lettuce, 80-82, Wardour Street, S.W., 10.00
Jupiter Primadona Growth Tst, 197, Knightsbridge, S.W., 10.30
Rubicon, Senator House, 85 Queen Victoria Street, EC, 12.30
BOARD MEETINGS:
Finals:
Bellway
MY Hldgs
Overseas Inv Tst
Interims:
Soco Int
Toye
West 175 Enterprises

■ WEDNESDAY OCTOBER 29

COMPANY MEETINGS:
Pacific Horizon Inv Tst, 1 Rutland Ct, Edinburgh, 11.30
Usher (Frank), Waverley Hse, 7 Noel St, W., 11.30
BOARD MEETINGS:
Finals:
Morgan Grenfell Equity
Interims:
Body Shop
Pilkington
Sainsbury (J)

■ THURSDAY OCTOBER 30

COMPANY MEETINGS:
Dowding & Mills, Botanical Gardens, Westbourne Road, Edgbaston, Birmingham, 12.00
Goodhead, Chaucer Int Estate, Launton Road, Bicester, Oxon, 12.00
Headway, Briar Court Hotel, Halifax Road, Huddersfield, 9.30
Kays Food, 3, Colmore Circus, Birmingham, 10.00
McBride, Butchers Hall, Bartholomew Close, E.C., 12.00
Perpetual Japanese Inv Tst, Perpetual House, 47-49, Station Road, Henly-on-Thames, Oxon, 12.15
Southampton Leisure, Hilton National, Bracken Place, Chilworth, Southampton, 11.30
Winchester Multimedia, 8, Salisbury Sq, E.C., 12.00
BOARD MEETINGS:
Finals:
AG Hldgs
Air London
Pressac
Interims:
Anglian Water
Scott Mort. & Tst
Solid State
Tullow Oil

■ FRIDAY OCTOBER 31

COMPANY MEETINGS:
City Technology, Marriott Hotel, North Harbour, Portsmouth, 11.30
Cornwell Parker, Painters Hall, 9, Little Trinity Lane, E.C., 11.00
Linx Printing Technologies, Slepe Hall Hotel, Ramsey Road, St. Ives, Cambs., 10.30
Surrey Grp, 8, Baker Street, W., 10.00
BOARD MEETINGS:
Interims:
Cairngorm Building Society
Meltek

Company meetings are annual general meetings unless otherwise stated.
Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.
This list is not necessarily comprehensive since companies are no longer obliged to notify the Stock Exchange of imminent announcements.

DIVIDEND & INTEREST PAYMENTS

■ TODAY

Alba 4.75p
All Nippon Airways 9¾% Nts 2000 $975.0
BAT Int Fin 9¼% Gtd Bd 2020 £92.50
Christiania Bank Sb FRN Oct 1997 $321.18
Church 3.5p
Exchequer 15% 1997 £7.50
Financial Receivables No 2 Mezz Asset-Bckd FRN 2005 £2321.75
Do Snr Asset-Bckd FRN 2005 £690.02
Do No 3 Mezz Asset-Bckd FRN 2018 £2134.76
Do Snr Asset-Bckd FRN 2018 £936.80
General Electric $0.26
Goodman Fielder A$0.035
Hammerson 7⅞% Bd 2003 £787.50
Italy Global FRN Jul 1999 DM40.88
Do Jul 1999 $14.61
Do Jul 1999 Y1777.0
Japan Development Bank 7½% Gtd Bd 1999 $75.0
Laird 5.4p
Leumi Int Invs Gtd FRN 1998 $163.67
London Elec 8⅝% Bd 2005 £86.25
Mitsubishi Chem 4% Bd 1998 Y400000.0
Do 4.55% Bd 2001 Y455000.0
Molex $0.015
National Westminster Bank Gtd FRN 2005 $311.55
Nichols (JN)(Vimto) 2.7p
Second Alliance Tst 36p
Do 4½% Cm Pf £1.575
Treasury 4⅝% IL 2004 £2.6433
Turkey 9% Bd 2003 £90.0
Wassall Rd B 0.109627p
Woolwich 3p
Wyevale Garden Centres 4.15p

■ TOMORROW

Britannia Building Society Sb FRN 2005 £19376.71
Canadian Imperial Bank of Commerce C$0.30
Cheltenham & Gloucester 11¾% Perp Bd £2937.50
Co-operative Bank Sb FRN 2000 £90.58
Development Securities 1p
Finsbury Underwriting Investment Trust 1.4p
Guinness 4.92p
Lloyds Bank Ser A Sb VRN 1998 £181.16
Nightfreight 0.5p
Severfield-Reeve 3.75p
Syndicate Cap Tst 7.75p
Toyobo FRN Apr 1998 Y23399.0
UK 7⅛% Bd 1997 DM71.25

■ WEDNESDAY OCTOBER 29

Bank of Nova Scotia C$0.37
British Gas Int Fin 9½% Gtd Bd 2001 C$95.0
BZW Cv Inv Tst 4.8p
Daiwa Int Fin 8⅜% Sb Bd 2003 $8375.0
Great Universal Stores 12.5p
Guinness Fin 9⅝% Gtd Nts 1998 C$96.25
Japan Airlines 5.45% Bd 2002 Y545000.0
Do 5½% Bd Oct 2003 Y550000.0
Jupiter Primadona Growth Tst 3.5p
Kansai International Airport 6¼% Gtd Bd 1999 $312.50
Mitsubishi Chem 4.4% Nts 1997 Y440000.0
Nihon Doro Kodan 6⅞% Gtd Bd 1998 Ecu88.75
Roxboro 2.4p
3i 10¾% Gtd Bd 2001 £107.50

■ THURSDAY OCTOBER 30

Abbey National Treasury 7⅞% Gtd Nts 1998 A$78.75
Abbey National Treasury Services 6% Gtd Nts 1997 $60.0
BPP 5p
Beacon Investment Trust 1.8p
Dowding & Mills 2.06p
French Connection 0.75p
Group Tst 0.33p
Jermyn Investment 2.5p
Korea-Europe Fd $0.03
Kwik-Fit 2.35p
Mersey Docks & Harbour 4.5p
Minorco $0.22
Molins 6.5p
PTS 1.3p
Pacific Horizon Inv Tst 0.35p
Pokphand (Bermuda) $0.00192
Do (Hong Kong) HK$0.015
Do (UK) $0.00192
Portsmouth & Sunderland 6% Cm Pf 3p
Do 11½% 2nd Cm Pf 5.75p

■ FRIDAY OCTOBER 31

Alexon 5% Cm Pf 1.75p
Alumasc 6.05p
Anglovaal R1.57
Do N R1.57
Automotive Precision 1p
Baldwin 1.5p
Banco Real Step-up FRN 2001 $525.0
Banco Santander Pta30.0
Bandt 7% Cm Pf 2.45p
Bankers Investment Trust 8% Db 2023 £4.0
Do 10½% Db 2016 £5.25
Batleys 10% Cm Pf 5p
Blacks Leisure 10% Cm Pf 5p
Bowness Leisure Cv Pf 5.6p
Breedon 2.1p
Burmah Castrol 6% Cm 1st Pf 2.1p
Do 6% Cm 2nd Pf 2.1p
Do 8% Cm Pf 2.8p
Do 7¼% Cm Rd Pf 2.5375p
CALA 2.45p
Calderburn 0.4p
Capital Shopping Centres 6% Sb Cv Bd 2006 3p
Charterhouse Comms 0.14p
Conrad Ritblat 5.61p
Cookson 7% Non-Cm Pf 1.225p
Corporate Services 2.7p
Crean (J) 7¼% Rd Cv Ln 1999 IR3.6548p
Creston Land 6% Cv Rd Ln 3p
Dartmoor Investment Trust 3.1p
Do 6¼% RPI-Lkd Db 2005 £4.183
Dobbies Garden Centres 1.5p
Dumyat Investment Trust Cv Mnthly Div 0.49p
Dunedin Inc Grwth Inv Tst 7⅞% Db 2019 £5.501712
Dunedin Worldwide Inv Tst 3.5% Cm Pf £1.75
Eaglet Inv Tst 1.5p
English Property 9⅞% 1st Mtg Db 1997/2002 £4.9375
Estates Property Investment 10% 1st Mtg Db 2011 £5.0
Do 10% Sec Ln 1993/98 £5.0
Eurodis Electron 3.15p
Evans of Leeds 11% 1st Mtg Db 2025 £5.50
Exco 0.75p
Filofax 2.2p
First Leisure 2.64p
Fleming Inc & Grwth Inv Tst Stppd Pf 3.4207p
GGT 3.9p
Games Workshop 5.8p
Guildhall Property 6% Cm Pf 2.1p
Haden Maclellan 1.3p
Haynes Publishing 5.5p
Heavitree Brewery 11½% Cm Pf 5.75p
Henderson High Inc Tst 1.65p
Hiscox 1.1p
Hokkaido Elec 6⅛% Nts 2000 $612.50
Holt (J) 15p
Homeloans (No 1) Class A Mtg Bckd FRN 2030 £129.77
Do Mezz Bckd FRN 2030 £199.75
Do (No 3) Class A1 Mtg Bckd FRN 2028 £73.25
Do Class A2 £183.12
Do Class B £188.41
Do Class C £199.75
Owen (HR) 0.4p
Independent Insurance 8.25p
Independent Newspapers IR2.6p
Intermediate Capital 5.4p
Jasmin Cv Un Ln 1999 76.4384p
Keller 2.1p
Lands Improvement 1.75p
Lasmo Units 3.3043p
Do 10⅜% Db 2009 £5.1875
Latham (J) 8% Cm Pf 4p
Legal & General 6¾% Cv Sb Bd 2008 £33.75
Liberty Int A Cv Pf 12p
Do B Cv Pf 3p
Do 5½% Sb Cv Bd 2009 2.75p
Linden 2.25p
Litho Supplies 3.44p
Lloyds Smaller Co's Inv Tst 2.05p
Do Package Units 2.05p
Londonderry Port 3½% Cons £1.75
London Merchant Secs 7¾% Cv Un Ln 2000/05 £3.875
Lowes $0.055
MSB Int 3p
Marley 2.1p
Mayne Nickless A$0.15
McAlpine (Alfred) 9% Cm Pf 4.5p
Menzies (J) 9p
Meristem 0.8p
Metalrax 1p
Moorfield Estates 0.25p
Murray Inc Tst 5.35p
National Westminster Bank Var Rate Nts 2008 $1495.0
Nova Scotia 16¾% Ln 2011 £8.375
Orbis 0.97p
Pacific Electric Wire & Cable 3¾% Bd 2001 $375.0
Pearson 7.5p
Peel 10% Cm Pf 2.5p
Do 9⅞% 1st Mtg Db 2011 £4.9375
Peel South East 10% 1st Mtg Db 2026 £5.0
Do 11⅝% 1st Mtg Db 2018 £5.8125
Do 12½% 1st Mtg Db 2015/20 £6.25
Pentland 1.47p
Persimmon 3.2p
Prolific Inc 0.5p
Provident Fin 7.75p
Prudential Fin 8¼% Gtd Bd 2001 $82.50
Ransomes Cm Cv Pf 4.125p
Residential Property No 4 Class A1 Mtg Bckd FRN 2023 £559.13
Do Class A2 £1852.60
Royal Bank of Canada Fltg Rate Db 2005 $49.51
Schroder Inc Grwth Fd 1.85p
Scottish Inv Tst 4% Perp Db £2.0
Do 4¼% Perp Db £2.125
Do 5% Perp Db £2.50
Scottish & Newcastle 4.8% Cm Pf 2.3p
Do 8.425% Cm Pf 3.2125p
Seagram Distillers 12⅜% Db 2012 £6.1875
Second St Davids Investment Trust 4p
Seiyu 4.2% Bd 2000 Y420000.0
Select Appointments 1.2p
Shaftbane 1.5p
Shires Inc 4.2p
Simon 7¾% Cm Pf 1992/97 2.611644p
Stat-Plus 5.13p
Streamline 3p
Swallowfield 3.3p
TR City of London Trust 10¼% Db 2020 £5.125
Texaco Int Fin 8% Stlg/$Cv Gtd Ln 1981/99 £4.0
Tops Estates 1.853p
Torchmark $0.15
Toronto-Dominion C$0.28
Transamerica $0.50
Trinity Int 4p
USF & G $0.07
Utd Carriers 1.7p
University of Lancaster 9¾% 1st Mtg Db 2025 £2.4375
Upton & Southern Cv Pf 2p
Vaux 7% Cm Pf 2.45p
Do 4½% A Cm Pf 1.575p
Do 6½% A Cm Pf 2.275p
Vero 2p
Wells Fargo Sb FRN 2000 $50.05
Wimpey (George) 2p
Woolwich FRN 1998 £182.11
Worldsec $0.02

■ SATURDAY NOVEMBER 1

AMEC Cv Pf 3.25p
BET 4½% 2nd Db £2.25
Baynes (Charles) 1.15p
Bristol 3½% Db £1.75
Britannia 0.4p
Cornwell Parker 2p
Daniels (S) 0.2p
Fleming Mercantile Inv Tst 2p
Fyffes Cv Pf IR4.125p
Genfinance 11.31% Ln 2007 £56.55
Gibraltar 11⅞% Ln 2005 £5.9375
Hardys & Hansons 5% Cm 1st Pf 1.75p
Do 4% Irrd 1st Mtg Db £2.0
Laing (John) 0.8p
Do A (N/Vtg) 0.8p
Do 6.4% Cm Pf 3.2p
Lamont 8% Cm Pf 1.05p
Do 5.6% 2nd Cm Pf 2.8p
Do 10% 3rd Cm Pf 5p
Lincoln national $0.49
London Stock Exchange 10⅛% Mtg Db 2016 £5.0625
Lowe (Robert H) 6½% 1st Cm Pf 2.275p
Marshalls 10% Cm Pf 5p
Merchants Tst 4% Perp Db £2.0
Montreal 3% Perm Db £1.50
NWF 5.3p
Norwich 3% Rd £1.50
Nottingham 3% Irrd £1.50
Parkland 3.15% Cm Pf 1.575p
Plasmec 2.7p
Reading 3½% £1.75
Retail Corp 6½% 3rd Cm Pf 2.275p
Sanderson Bramall Motor 1.84p
Scottish Inv Tst 3½% Cm Pf £1.75
Do 3.85% Cm Pf £1.925
Do 4.55% A Cm Pf £2.275
Singer & Friedlander 8½% Cv Sb Un Ln 2009/14 £4.25
Wembley 1p
Whitbread 4½% Cm 1st Pf 1.575p
Do 8% 3rd Cm Pf 2.1p
Do 7% 3rd Cm Pf 2.45p

ARTS

OPENINGS

NEW YORK
An exhibition of drawings by the Quattrocento painter Filippino Lippi and his circle goes on show tomorrow at the Metropolitan Museum of Art. With rare loans from around the world, it brings together 117 drawings, including some by Botticelli, Raphael and other Florentine artists of Filippino's time.

VIENNA
Wien Modern, Vienna's annual contemporary music festival, opens tomorrow with the Austrian premiere of Henze's Ninth Symphony conducted by Dennis Russell Davies. The festival runs till November 28.

PHILADELPHIA
Sir Simon Rattle (above right) conducts Mahler's Second Symphony at the Academy of

Music on Thursday, at the start of two weeks of concerts with the Philadelphia Orchestra. His second programme, starting on November 6, includes Beethoven's Third Symphony.

LEIPZIG
Starting on Friday, the Gewandhaus is promoting a week-long festival devoted to the music of Mendelssohn, one of the most distinguished figures in its long history.

Highlights include the cantata *Die erste Walpurgisnacht* conducted by Kurt Masur and the oratorio *Paulus* conducted by Herbert Blomstedt.

WASHINGTON
The first US exhibition of paintings by Italian Renaissance master Lorenzo Lotto opens at the National Gallery of Art on Sunday. Many of the 50 paintings are on loan from churches and museums in Italy. The exhibition will move to Bergamo in April and Paris next October.

LYON
Busoni's rarely-staged masterwork *Doktor Faust* can be seen at the Opéra over the next three weeks. Conducted by Kent Nagano (right) and directed by Pierre Strosser, it features Dietrich Henschel in the title role and Kim Begley as Mephistopheles. The first night is on Sunday.

ANTWERP
The Royal Ballet of Flanders presents a new production of *Romeo and Juliet*, with choreography by André Prokovsky, using the Prokofiev score. Sets by Robin Don; costuming by Alexander Vassiliev. The staging will later tour through Belgium and Holland until early December, when – of course – everything stops for *The Nutcracker*.

LONDON
Rupert Everett (right) returns to the London stage in the excellent 1994 Glasgow City production of Tennessee Williams's *The Milk Train Doesn't Stop Here Any More*, opening tonight at the Lyric Theatre, Hammersmith.

STRATFORD-UPON-AVON
As part of the current British season of French Theatre, the Royal Shakespeare Company presents a programme of "Beckett shorts" opening at The Other Place, Stratford-upon-Avon, on Wednesday. Katie Mitchell directs; the cast is led by Juliet Stevenson; the production will tour extensively.

Theatre/**Ian Shuttleworth**

A revel in irrelevances

At the beginning of his tenure as artistic director of the Royal National Theatre, Trevor Nunn plays host to the man who plagued him nearly 20 years ago by perpetrating a magnificently detailed hoax claiming that the RSC, in the wake of *Nicholas Nickleby*, was about to become the Royal Dickens Company. Yes, Ken Campbell is back.

Campbell's thought processes are the psychological equivalent of a Gaudi cathedral: they are implausibly ornate and twiddle off in all sorts of peculiar directions, but the cumulative effect is wondrous.

Theatre Stories is partly a compilation of highlights from his previous solo shows. Thus, as well as the full story of all those "... love, Trev" Dickens letters, we get the saga (first heard in *Mystery Bruises*) of his mantra-laden audition at Watford and his essay upon the importance of Angus in *Macbeth*, which is the greatest piece of close-reading criticism I have come across in years – "Why do they all ignore him? Has he committed some horrendous social gaffe?"

The second half also contains the story from *Pigspurt!* of the man who, as a result of a dream-vision (Campbell's, naturally, rather than one of his own), ended up touring the Pacific islands of Vanuatu translating the material of Ken Dodd into Pidgin. (Examples are thoughtfully provided.)

Campbell continues to be fascinated with that language, and proceeds to tie the evening's threads together by proposing a Pidgin production of *Macbeth*; he even treats us to a couple of chunks, including a glorious rendering of Lady M's "Come, you spirits/That tend on mortal thoughts, unsex me here" as "Satan takem mi hanbag".

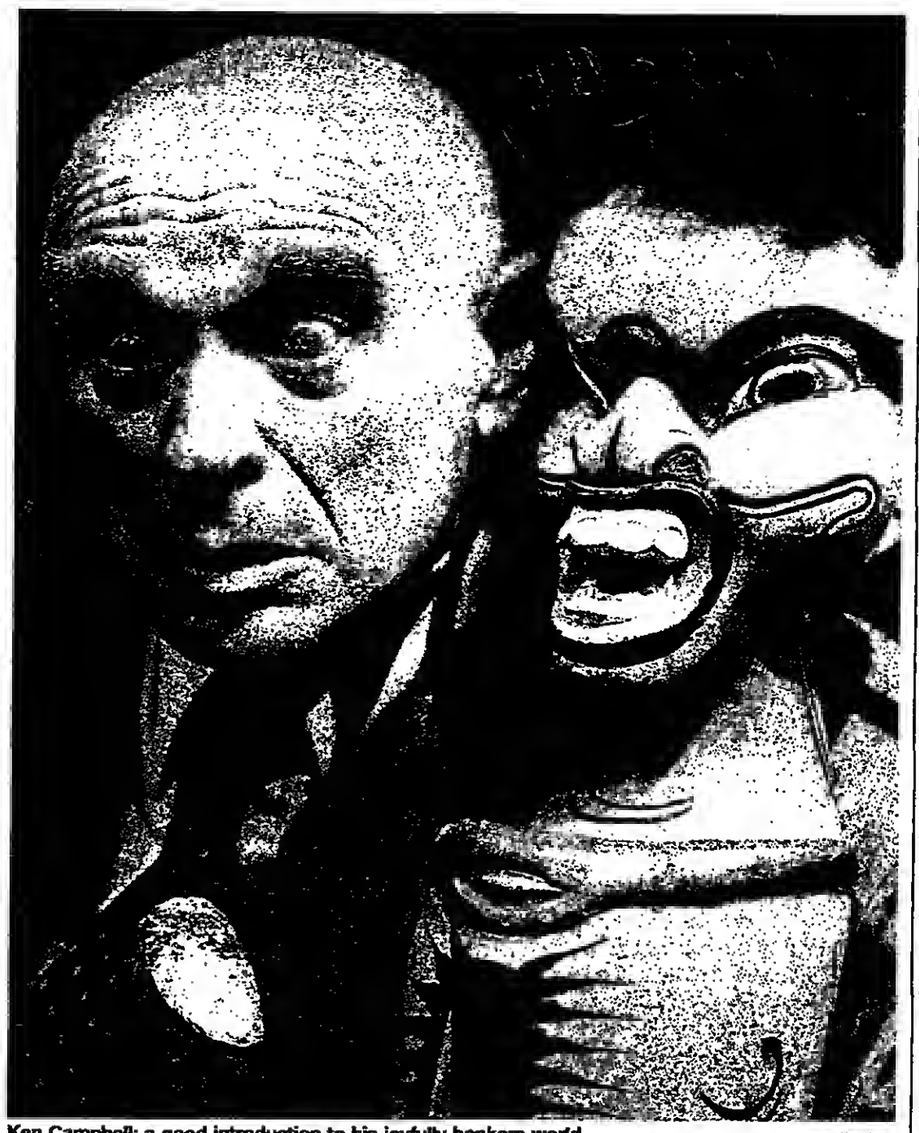
Theatre Stories is the perfect deep-end introduction to the bonkers joys of Ken Campbell, wild yet charming enough to set even "Trev" sniggering at his own past discomfiture.

Patrick Barlow, alias Dr. Desmond Olivier Dingle, artistic director of the National Theatre of Brent, is also back on the boards. Nottingham Playhouse found its scheduling thrown into chaos several weeks ago when events overtook the venue's plans for a satirical royal show. Barlow has consequently stepped in at short notice – although one cannot tell from the marvellously ornate, deliberately malfunctioning laboratory set – with a lopsided canter through *The Mysteries Of Sex*.

Never having seen the NTB onstage before, I cannot say for certain, but I suspect that one or two scenes in the show are reprised from the company's former glories; the audience-participation version of the Russian revolution certainly seems both polished and irrelevant enough to have enjoyed a previous existence.

Mind you, polished irrelevance is the keynote of the evening: after a session of "Tantric warm-ups", we skim through the history of Henry VIII and his wives (one of whom was apparently Joan Plowright), the details of "the Oedipus cornflakes" and the liaison of Lady Chatterley with "the lusty gamekeeper David Mellors".

Barlow as Dingle cultivates a fine air of dignified self-importance even as the cock-ups mount around him; John Ramm as Raymond Box, Dingle's "trainee" sidekick, makes for a put-upon dimwit doing his meagre best in the circumstances. Theirs is the theatrical ethos described by Ken Campbell as "doing it crappily", and their crappiness has been expertly honed over the years – it is, as Dingle might say, "the *maison d'être* of the company's artistic policy".



Ken Campbell: a good introduction to his joyfully bonkers world

Alastair Muir

Ken Campbell's Theatre Stories: Cottesloe Theatre (0171 928 2252). The Mysteries Of Sex: Nottingham Playhouse (0115 941 9419). Both shows run until November 1.

Music in Berlin/**Paul Moor**

Thielemann makes his mark

Berlin's new musical golden boy is Christian Thielemann. Launching his first season as the Deutsche Oper's *Generalmusikdirektor*, he has hit Berlin like no other conductor since Claudio Abbado succeeded Herbert von Karajan at the Philharmonic.

Even before last season ended, the Deutsche Oper's intendant, Götz Friedrich, indulged Thielemann by exhuming an ancient production of Hans Pfitzner's *Palestrina*, in which the 38-year-old conductor distinguished himself. He opened this season with a repertory performance of *Tristan und Isolde*, building upon that good first impression.

Then came the test of a new Friedrich production of Hans Werner Henze's early Kleist opera, *Der Prinz von Homburg* – nervously awaited because of Thielemann's apparent attitude that 20th-century music stopped with Pfitzner. After proving himself thoroughly at home in Henze's idiom – academically atonal but by no means avant-garde – *Tannhäuser* and *Der fliegende Holländer* eradicated residual doubt as to the acquisition of an exceptionally gifted new music director.

In 1992 Henze revised his score of *Der Prinz von Homburg*, which was unveiled by the Hamburg Opera in 1960, making the textures more transparent, transforming it almost into a chamber opera. Thielemann proved himself fully sympathetic to the work's neo-Straussian lyricism, sensitively bending the orchestral accompaniment to his singers, but firing full broadsides during the musical depiction of the Battle of Fehrbellin.

His showing in the two subsequent Wagner evenings left one wondering how much time he had had for rehearsals. A tendency towards cadencing at the end of individual phrases damaged the continuity of the *Tannhäuser* overture, and the tempo set at the opening of Act 2 resulted in appallingly scrambled string triplets – a passage by which foresighted conductors set their tempo at the outset. At Thielemann's clip, those triplets would have taxed the Berlin Philharmonic.

No doubt the chorus's deployment over the vast stage-area contributed to entrances one can only call ragged; but choral ensemble showed the same failing, and the exposed wind chord beneath Tannhäuser's cry for pity turned downright sour. After Thielemann's Henze success, these shortcomings will, with luck, become less troublesome as he takes over musical control in his new environment. The differentiated gamut he successfully ran between the sacred of the pilgrims' music and the profane of the Venusberg bacchanale showed convincing command of Wagnerian style.

A native Berliner, Thielemann he has been hailed in Frankfurt as "Jung-Siegfried" – and indeed this company could use a Young Siegfried: the federal government has decided – questionably – to subsidise Daniel Barenboim's Staatsoper as the future capital's first of three opera houses. With 24 productions in repertoire, the Staatsoper receives DM91m (£32m) in subsidy, compared with the larger Deutsche Oper's DM85m for 34 productions. The Deutsche Oper *has* to try harder.

There has also been an obstinate shadow hanging over Thielemann since his arrival. Serialised excerpts from a forthcoming book by Berlin's former culture senator, Ulrich Roloff-Momin, have hardly allayed the persistent rumours of far-right and anti-Semitic expressions dating from Thielemann's years at the Nuremberg Opera, which had seemed to subside after he defied detractors to make their charges openly so he could sue them.

Musically, Thielemann has emerged from his introductory ordeal triumphantly. Non-musically, this issue remains by no means resolved. It has plenty of Berliners watching closely, hopefully, but also edgily.

Opera/**David Murray**

Merry Widow in sober mode

One way and another, the Royal Opera is carrying on bravely while in exile from Covent Garden. Now it has taken up residence in the Shaftesbury Theatre for six months, playing operas – and operettas – in whole runs rather than in repertory.

It opened last week with Franz Lehár's *The Merry Widow*, which continues with alternating casts until January, interrupted by two weeks of Rossini's *Barbiere di Siviglia* and a week of Britten's *Paul Bunyan* in late November and December.

With its opening cast, the *Merry Widow* proved appealing but slightly muted. The leading singers here, Felicity Lott as the rich, canny Widow and Thomas Allen as the ex-lover she aims to recapture, both of them well-practised and charming, have reached their charismatic 50s. Nice for their world-weary roles; the Shaftesbury's musical-comedy audience might, however, expect gutsier delivery from them – with or without amplification. They sounded fine from Row E, but maybe not from further back.

Flott (as she is known) sings a ravishingly gentle "Vilja, o Vilja", without the succulent Schwarzkopf gurgle on *Trauliebster* – "true lover": perhaps Jeremy Sams's English text doesn't make room for a gurgle – but with an exquisite spin as she glides into the fourth line of the refrain. Allen's distinctive vocal manners, utterly musical but easy and prosy, make his Count Danilo more of a wry commentator than a romantic lead.

In the spoken scenes, none of the singers puts Sams's sparky, updated dialogue across with the proper pizazz. The Brits are understated; their foreign colleagues are not *au foit* with the language. Claudio Desderi, a formidable singer-comedian in Italian, makes his Baron Mirko here just a conventional comic dupe, though a sturdy one. Juliette Galstian and Luca Canonici flute prettily as Valencienne and Rosillon, but pick their way cautiously through the spoken words.

The Merry Widow has probably the most exiguous plot of any Viennese operetta, and it needs a lot of plumping-up. The producer Graham Vick has chosen instead to slim it down. Hyper-plain designs by Richard Hudson (bare walls with squiggles, basically – and the ethnic Pontevedrian costumes should be wittier and funnier); the chorus of socialites drilled into anonymity; no imaginative frills, and no blazing chandeliers for the parties.

Luckily, Ron Howell has organised a stirring can-can for the *grisettes* in Act 3. We must hope that everybody will get more into the swing of the thing as the run continues; on this first night, the operetta felt like a sober, cautious replica of itself.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Lander-Graham-Marin: National Ballet programme of four 20th-century works – Etudes, Lamentation, Embattled Garden and Grooslandt; Oct 27

OPERA
Het Muziektheater
Tel: 31-20-551 8911
La Traviata: by Verdi. Netherlands Opera revival of a staging by Alfred Kirchner, conducted by Ralf Weikert; Oct 28,30

■ BERLIN

CONCERTS
Konzerthaus Tel: 49-30-203090
Berlin Symphony Orchestra: conducted by Diego Masson in a programme including works by Dukas, Schmitt and Ravel; Oct 30

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Antonio Pappano in works by Messiaen, Mozart and Sibelius; with bassoon soloist Daniele Damiano; Oct 31

■ BILBAO

EXHIBITION
Guggenheim Museum Bilbao
Tel: 34-4-423 2799
The Guggenheim Museums and the Art of This Century: the new museum's inaugural exhibition features more than 300 works of modern and contemporary art from the Guggenheim's collections

■ BRUSSELS

OPERA
La Monnaie Tel: 32-2-229 1211
● La Stellidaura Vendicante: by Francesco Provenzale. New production directed by Philippe Sireuil and conducted by Alessandro de Marchi; Oct 28, 30, 31
● Werther: by Massenet. Concert performance conducted by Wladimir Jurowski, with a cast including Alison Hagley and Jennifer Larmore; Oct 31

■ CHICAGO

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
Renoir's Portraits: Impressions of an Age. Around 65 paintings spanning the artist's career, of subjects including Claude Monet and Madame Renoir. The show has been seen in Ottawa and will travel to Texas; to Jan 4

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
● Idomeneo: by Mozart. Conducted by John Nelson in a staging by John Copley; Oct 28, 31
● Peter Grimes: by Britten. Conducted by Mark Elder, making his Lyric Opera debut, in a staging by John Copley. Ben Heppner sings the title role; Oct 29

■ CLEVELAND

EXHIBITIONS
Cleveland Museum of Art
Tel: 1-216-421 7340
When Silk Was Gold: Central Asian and Chinese Textiles. Featuring 64 precious textiles from the 8th to 15th centuries, when they were of immense economic and cultural significance. Including the most important known "cloth of gold". The exhibition will travel to New York; to Jan 4

■ LONDON

EXHIBITIONS:
National Portrait Gallery
Tel: 44-171-3060055
Sir Henry Raeburn (1756-1823): previously seen in Edinburgh, this exhibition of some 60 paintings includes the major portraits belonging to the National Gallery of Scotland as well as loans from abroad; to Feb 1

Tate Gallery
Tel: 44-171-887 8000
The Turner Prize 1997 – display of works by each of the nominees on this year's all-woman shortlist: Christine Borland, Angela Bulloch, Cornelia Parker and Gillian Wearing; from Oct 29

Victoria and Albert Museum
Tel: 44-171-938 8500
Carl and Karin Larsson: Creators of the Swedish Style. Recreates five rooms of the famous house at Sundborn, and examines its extraordinary impact on the interior design of our century; to Jan 18

OPERA
Shaftesbury Theatre
Tel: 44-171-379 5399
The Royal Opera: The Merry Widow, by Franz Lehár, in a new translation by Jeremy Sams. New production by Graham Vick, with designs by Richard Hudson; Oct 27, 28, 29, 30, 31

■ LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: with the Moscow Virtuosi, led by Vladimir Spivakov, in a programme including works by Mozart and Shostakovich; Oct 31

■ MELBOURNE

DANCE
Melbourne Festival
Tel: 61-1800-336 998
Australian Ballet with Bangarra: programme of three world premieres. Twyla Tharp has choreographed a pas de deux to music by Klyoung Kim. Stephen Baynes new ballet At the edge of night is set to music by Rachmaninov. Rites, performed here in collaboration with Bangarra Dance Theatre, is an adaptation of The Rite of Spring choreographed by Stephen Page; at the State Theatre; Oct 29, 30, 31

■ MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Marinsky Theatre Orchestra: conducted by Valery Gergiev in works by Berlioz, Skrjabin and Shostakovich; Oct 27
● Munich Philharmonic Orchestra: conducted by Myung-Whun Chung in works by Messiaen and Mahler; Oct 30, 31

DANCE
Bayerische Staatsoper
Tel: 49-89-2185 1920
Bayerische Staatsballett: Romeo and Juliet. John Cranko's choreography is set to Prokofiev's score. With sets and costumes by Jürgen Rose; Oct 30

EXHIBITIONS
Haus der Kunst
Tel: 49-89-5481 8181
Julião Sarmento: display of recent works by the Portuguese painter; to Jan 18

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
● Die Verkaufte Braut: by Smetana. Conducted by Jun Märkl in a staging by Thomas Langhoff; Oct 28
● Elektra: by R. Strauss. New production conducted by Peter Schneider, directed and designed by Herbert Wernicke; Oct 27, 31
● Madama Butterfly: bu Puccini. Conducted by Asher Fisch in a staging by Wolf Busse; Oct 29

■ NEW YORK

OPERA
Metropolitan Opera, Lincoln Center Tel: 1-212-362 6000
La Cenerentola: by Rossini. Met Opera premiere. New production conducted by James Levine in a staging by Cesare Lievi, with designs by Maurizio Balò; Oct 27, 31

■ PARIS

CONCERTS
Salle Pleyel Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph Eschenbach in works by Schumann and Mahler. With piano soloist Mitsuko Uchida; Oct 29, 30

Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Yehudi Menuhin in works by Mozart, Beethoven and Enesco; Oct 30

OPERA
Opéra National de Paris, Opéra Bastille Tel: 33-1-44731300
● Nabucco: by Verdi. Conducted by Pinchas Steinberg in a staging by Robert Carsen; Oct 29
● Turandot: by Puccini. New production by Francesca Zambello. Conducted by Fabio Luisi; Oct 27, 30

■ VIENNA

EXHIBITIONS
KunstHausWien
Tel: 43-1-712 0495
Herb Ritts: first European retrospective of work by the American photographer. Previously seen in Boston, the exhibition includes portraits of Hollywood celebrities; to Jan 18

■ TV AND RADIO

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EUROPEAN CABLE AND SATELLITE BUSINESS TV
Monday to Friday, Central European Time:

● **NBC/Super Channel**
07.00: *FT Business Morning*
10.00: *European Money Wheel*
Nonstop live coverage until 15.00 of European business and the financial markets.
17.30: *Financial Times Business Tonight*

● **CNBC**
08.30: *Squawk Box*
10.00: *European Money Wheel*
18.00: *Financial Times Business Tonight*

Personal View · **Allan Meltzer**

Danger of moral hazard

IMF bailouts risk teaching bad lessons to governments and banks alike

One of the most important financial lessons of recent decades is that banks should not be encouraged to take excessive risks. Above all, when they fail, losses should not be shifted to the domestic taxpayer.

There are two common factors lying behind systemic failures. First is a shift from inflation to disinflation. Prices for land, property and other assets incorporate anticipated inflation. When these change quickly, asset prices adjust. If they fall below the value of outstanding debt or mortgages, defaults are triggered.

Second, there is often an implicit – or even explicit – understanding that financial institutions will not be allowed to fail. As the net worth of an institution declines, it may therefore be tempted to increase risk in the hope of earning extra returns to keep it solvent. This lies at the heart of the problem known as "moral hazard": it happens when financial institutions take on more risk, knowing they stand to benefit from increased returns, but will be able to share any losses with taxpayers.

Some countries have taken measures to cut down on the risk of moral hazard. But the International Monetary Fund appears to have moved in the opposite direction.

First in Mexico, and now in Thailand, it has lent money at low interest rates to shore up insolvent financial institutions and protect foreign banks by limiting their losses. The IMF has now asked for a 45 per cent increase in the quotas of member countries so it will have the capacity to intervene "more effectively" in similar circumstances.

And there *will* be similar circumstances. International banks and financial institutions can now act safe in the knowledge that the IMF will provide a safety net to protect them from some, or even most, of their losses. The risks are increased by such moral hazard. Some of the losses are shifted from the lenders to the IMF and, therefore, to taxpayers in developed countries who supply the capital that the IMF mismanages.

Mexico is an excellent case study of the effects of mistaken policies and of IMF and US government "help". The ordinary Mexican citizen may read about the assistance Mexico gets from its friends at the IMF and the US Treasury. His or her own experience is very different. After the international bailout of 1995, Mexicans now face a greatly increased debt burden and have seen their real incomes plummet.

With few exceptions, Mexico's real external debt has increased annually since the early 1970s. The exceptions occurred in 1984-85, 1988-89, and 1996 but, with help from the IMF and foreign lenders, the real value of debt reached a new peak within a few years of each dip.

Debt is neither good nor bad in itself. If borrowing produces an increase in productive capital, then income rises and the debt can be serviced or repaid from the higher wealth that it has helped generate. If, on the other hand, borrowing is used to hold the exchange rate steady so that private lenders can flee, there will be no productive assets to provide interest payments. If the government borrows from the IMF or the US Treasury to pay off investors and speculators, as in Mexico in 1995, the burden falls on domestic taxpayers.

> First in Mexico, and now in Thailand, the IMF has lent money to shore up insolvent financial institutions and protect foreign banks

The case of Mexico is illustrative. From 1973 to 1996, total Mexican debt increased 14 times faster than the per capita income of Mexican citizens. The main explanation is that Mexican per capita real income has not risen since 1974. Erratic Mexican government policy lies at the root of the problem. Since the early 1970s, Mexico has nationalised and then privatised its banks. Real public sector spending has surged and declined.

From 1950 to 1970, inflation remained relatively low and was much less variable than in subsequent years. Mexico was on a fixed exchange rate under the Bretton Woods agreement. After the 1973 oil shock and the end of Mexico's fixed exchange rate, highly inflationary policies led to a series of crises including the 1982 debt crunch and the 1994 devaluation.

From 1988 to 1996, annual inflation rates dropped to between 10 and 30 per cent, compared with rates of between 20 per cent and 80 per cent in the previous decade. Every surge in inflation since 1970 has been preceded or accompanied by a similar surge in the monetary base, while every period of disinflation has coincided with a deceleration of the monetary base.

The Bank of Mexico produces the monetary base. The bank has not set out intentionally to wreck the economy. It does not control, and probably does not watch, the monetary base. It controls, or over-controls, an interest rate. It is too slow to raise interest rates during periods of economic expansion or when the Treasury has debt to sell to the market. To keep the interest rate from rising, the bank expands the monetary base. After inflation gets out of hand, it raises rates, bankrupts a raft of borrowers, and sends the economy into protracted recession.

Some will see in Mexico's experience evidence in favour of a fixed exchange rate or a currency board, in which the domestic money supply is fully backed by hard currency reserves. In my opinion that is the wrong conclusion to draw.

No policy – of either fixed or fluctuating rates – can avoid financial crises if the underlying government policy is as variable as Mexico's has been since the 1970s. Either system would work well if the underlying fiscal, regulatory and other policies (such as those governing property rights) were aimed at stability.

Where does this leave the US Treasury and the IMF? The former has been "helping" Mexico since the 1930s; the latter since the 1970s. Successive Mexican governments have learnt that – if they face a crisis – these friends will lend them money to mitigate the immediate effects. Investors too have learnt that, if they run into trouble in Mexico, they will get bailed out. So they continue to invest.

That goes a long way towards explaining why Mexican policy has been so erratic and undisciplined. Without the IMF and the US Treasury – and the moral hazard they engender – Mexico would have learned to implement better policies. The same lesson goes for all.

The author is professor of political economy at the Carnegie Mellon University and visiting scholar at the American Enterprise Institute. This is an adaptation of a paper given at a Cato Institute conference earlier this month

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Spitalfields residents look forward to Liffe

From Mr Eric C. Elstob.

Sir, Your article "Ministers to review plan for Liffe development" (October 22), about the proposed London International Futures and Options Exchange building in Spitalfields, may have created a false impression of local opinion.

I write, as a resident of Spitalfields for over 20 years, to assure you that there is strong local support for the Liffe project. We recognise that it will be of great economic benefit to the area by creating service industry demand for shops and restaurants, labour-intensive industries which we need; and the rates which will flow back to Tower Hamlets will be of immense value.

Having been a governor of a local school, I am confident that many of my bright young Bengali pupils will make excellent derivatives traders on Liffe in the years to come! Architecturally, the proposed plans preserve the fine arts and crafts end of the market, next to Christ Church, Spitalfields, and demolish only a dull and characterless inter-war building to replace it with a handsome modern one.

The "fierce local opposition" you write of comes from a small group of noisy Luddites who do not understand the value of Liffe to the local community, or its importance to the prosperity of this country.

Eric C. Elstob,
14 Fournier Street,
Spitalfields,
London E1 6QE, UK

Drive towards combined heat and power

From Mr David Green.

Sir, As Leyla Boulton has highlighted ("Meacher backs wind and wave power", October 23), the government is working to fulfil its manifesto commitment to secure a drive towards combined heat and power (CHP). This is, of course, welcome.

CHP is one of a range of sustainable energy technologies. Through its connection to community heating it offers new scope for the wider use of solar energy. As Sheffield, Nottingham and Southampton show, having the infrastructure of a local heating network in place is an important building block to the use of a wide range of energy sources.

As far as coal is concerned, coupling a "cleaner coal" power plant to community heating can lead to significant CO_2 reductions and other savings. Without CHP the effect is negligible. Indeed, the government signalled to parliament, in a debate on the fossil fuel levy bill, that it planned to legislate to ensure that the current non-fossil fuel obligation could be transformed to reinforce the UK climate change programme.

Getting legislation right can take time. The challenge now is to respond to the opportunities already opening up, to ensure that we systematically use sustainable energy technologies and, in doing so, achieve an energy policy based on the principles of security, sustainability and diversity.

David Green,
director,
Combined Heat & Power Association,
35/37 Grosvenor Gardens,
London SW1W 0BS, UK.

Perhaps it's the critics who should be shot

From Mr Gary Smith.

Sir, In Nigel Andrew's reviews of October 16 he began a review of a film called *Shooting Fish* with the sentence: "How do you throw away £1m of British lottery money? You make *Shooting Fishes*" (sic).

Shooting Fish has been sold by Winchester Films to distributors around the world. Indeed, it was the only film purchased by Fox Searchlight for North America at the 50th Cannes Film Festival in May.

On the first three days of its release in Britain, 160,000 people paid to see the film, the second best opening weekend of any British film in 1997.

If Nigel Andrews is unimpressed by the judgment of filmgoers and distributors, perhaps I can put his mind to rest on any financial concerns he may have. Such is the success of *Shooting Fish* that it is expected that revenues from the film will be sufficient to repay the National Lottery its grant and for a profit to be paid to the Arts Council.

Gary Smith,
executive producer of *Shooting Fish* and chairman & chief executive,
Winchester Multimedia,
29/30 Kingley Street
London W1R 5LB

Condition of membership that we must not overlook

From Mr Anthony D. Sheridan.

Sir, Congratulations to Lord Cobbold on his excellent advice to Gordon Brown on economic and monetary union ("Statement on single market calls for simplicity", Letters, October 22). I believe that this represents the views of the boards of the great majority of leading industrial and commercial companies in the UK, and of medium-sized companies in the engineering industries, such as mine.

However, we must not overlook the necessary entry condition of being in the European monetary system with fixed central exchange rates for two years prior to Emu entry; of critical importance is this central rate, which clearly should not be D-Mark2.90 or even D-Mark 2.80 = £1.

The government needs to state its commitment to re-enter as soon as the exchange rate returns to around D-Mark 2.60 = £1.

Anthony D. Sheridan,
managing director,
Quadrant Meter Company,
Quadrant Connectors,
Quadrant House,
Watling Street,
Radlett,
Herts WD7 7HZ

A nail-biting experience

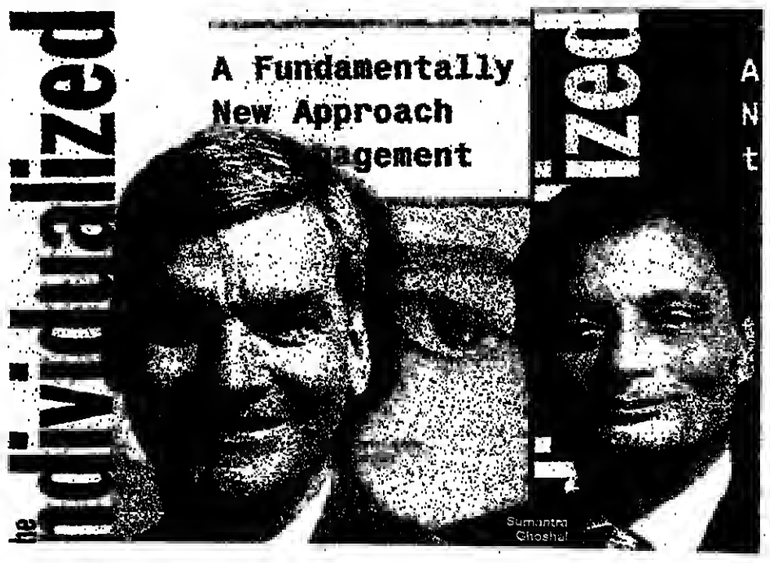
From Mr Keith Flett.

Sir, The UK's New Labour may well understand how to manipulate the language of politics, but if the pictures of Gordon Brown's severely bitten nails as he launched the London Stock Exchange's new computer system are anything to go by, it has failed to understand completely the importance of iconography in modern political discourse. I suggest a crash course in Baudrillard and Foucault for Peter Mandelson and Charlie Whelan.

Keith Flett,
38 Mitchley Road,
Tottenham,
London N17 9HG, UK

New model champions

Tony Jackson on management and upheaval



For those of us in the workforce old enough to care about such things, the demise of the job for life poses certain nagging questions. For a decade and more, we have been told that the pace of change makes job security impossible.

But is it not the task of top management to cope with upheaval? And if not, what do the rest of us get in exchange?

For students of management, the answers are familiar. The old hierarchical structure has been overtaken by events. Only customers can guarantee employment. All that companies can offer is employability. Those who aim to do more are headed for the boneyard.

The nostrums are familiar as well: empowerment, networking and lifetime learning.

Look at the titles on the management bookshelf: *Control Your Destiny or Someone Else Will*; *Do Lunch or Be Lunch*; *Dig Your Well Before You're Thirsty*.

But all this is merely a description of the problem. Professors Ghoshal and Bartlett have a crack at explaining it in their book*: and if much of what they have to say sounds familiar, at least they tackle the issues from the roots.

The first question is why exactly the old-style corporation, with its rigid structure and implicit lifetime contracts, could not survive. This is neatly illustrated by the case of one Don Jans, head of an electrical relays business based in Florida.

In a four-year period from 1989, Mr Jans's business raised its revenues by 45 per cent and profits by 120 per cent. Cycle times were cut by 70 per cent, inventories by 40 per cent.

The immediate cause was the transfer of the business from Westinghouse – a classic old-style industrial dinosaur – to the thoroughly modern Swiss-Swedish engineering group ABB.

The remarkable thing, though, is that Mr Jans, a 32-year Westinghouse veteran, was already head of the business at the time of the transfer. His own account of this is instructive.

"In Westinghouse," he says, "we recruited first-class people, did an outstanding job of management development, then wasted all that investment by constraining them with a highly authoritarian structure

... [ABB's senior management] spent a huge amount of their time in day-to-day intensive communication, taking the message to the front line managers that they were responsible ... It was an amazing change – I felt like I'd rediscovered management after 39 years."

The Westinghouse case is instructive in another way. Two decades ago, Westinghouse was around 60 per cent the size of its great historic rival, General Electric. It is now one ninth the size.

Westinghouse has remained trapped in the old model; GE, led by Jack Welch since 1981, did much to invent the new model single-handedly.

The old model, the book reminds us, was designed for a world in which the essential resource was capital. It aimed to collect capital at the centre, then distribute it according to a centrally determined strategy. The job of lower management was to take that capital efficiently down through the organisation, then send it, suitably augmented, back up again.

But as plenty of other writers have remarked, the scarce resource today is knowledge. Unlike capital, knowledge tends to reside lower down the organisation, since those at the top are, by definition, out of touch.

As here described, the new model comes in three parts. First come the managers in the field, who act as entrepreneurs and are the primary source of knowledge and experience.

Then come the senior managers, whose job is to coach and exhort those below them and to ensure that their knowledge is captured and shared across the organisation.

The role of top management is more elusive. In part, it must set targets and standards for the organisation, preferably in broad and non-prescriptive terms. But it *also* must maintain a state of what the authors term "organisational disequilibrium".

In essence, this means not letting the company settle for getting better at what it did before. It must be ready to fly off at an angle, should circumstances change.

There is a telling quote from Ryuzaburo Kaku, head of the Japanese electronics company Canon, which started in cameras and now makes anything from bubble jet printers to computers.

"In order for a company to survive for ever," Mr Kaku remarks, "it must have the courage to deny at one point what it has been doing in the past ... Speaking about myself, it is difficult [to do that]. So when such time comes that I have to deny the past, I would inevitably have to step down."

Most of the companies presented as champions of the new model are obvious: GE and ABB, for a start. However, the real hero of the book, perhaps revealingly, is McKinsey: a company which not only specializes in amassing information, but devotes immense care to passing it around the organisation.

In part, this may be a case of business school professors responding to kindred spirits: McKinsey is, in its way, a highly academic institution. But it may also help to explain why McKinsey is the first employment choice among all these bright young graduates.

They may simply have spotted that the management consultant – versatile, well-informed and infinitely employable – is the true successor to yesterday's Organisation Man.

**The Individualized Corporation by Sumantra Ghoshal and Christopher A. Bartlett. Heinemann, Price £20.*

This book is available from FT Bookshop by ringing +44 181 324 5511 or fax credit card details to +44 181 324 5678 (post and packing £1.50 in Europe)

FINANCIAL TIMES
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Monday October 27 1997

A blow to human rights

The Commonwealth leaders' decision in Edinburgh to duck the challenge presented by Nigeria's military regime is more than a blow to hopes for a return to civilian rule in Africa'a most populous state. It risks undermining the credibility of their commitment to human rights, and exposing the Commonwealth's Harare declaration on democracy and good government as humbug.

Two years after Nigeria's military regime dafied the world and executed Ken Saro-Wiwa and other community activists, its human rights record has not improved. General Sani Abacha, the military leader, has ignored calls for the release of Chief Moshood Abiola, winner of the aborted 1993 presidential election. The respected former military leader, General Olusegun Obasansjo, remains in detention, and civil rights activists, trade unionists and journalists are systematically harassed.

The minimum response required from Commonwealth leaders at the weekend was to expel Nigeria. They should have made tha existing package of sanctions, which include an arms embargo and a ban on visas for officials, binding on all members. Implemented by Britain, they have been resisted by African governments.

Instead the Commonwealth has deferred these and other measures, peoding the regime's pledge to return Nigeria to civilian rule by next October. If the result is not "credible", says a Commonwealth foreign ministers' report, tha group will conaider calling for further measures including a mandatory oil embargo, a ban on air links, and a freeze on financial assets of members of the regime.

Such threats might seem an inducement for Gen Abacha to kaep his promise. But he is more likely to conclude that since the Commoowealth is incapable of implemanting relatively modest sanctions threatened in the past, it will bardly carry out the more substantial actions mooted now.

There is a further objection to the Commonwealth strategy. As the foreign ministers' report acknowledges, Nigeria's transition programme is not credible. The five political partias allowed to function are basically fronts for military interests. Civilian rule could mean little more than General Abacha becoming President Abacha.

Commonwealth leaders cannot settle for this. They must today spell out the terms and timetable on which the proposed transltion would be acceptable, including the unimpeded registratioo of genuine political parties, the release of Chief Abiola and other detainees, and international monitoring of the elections. Otherwise the Commonwealth risks acquiesing in a process which simply leaves Nigeria with a civilian glove over the military fist.

New York revival

Rndolph Giuliani has the warmtb and charm of an old fashioned refrigerator, but his re-elaction as mayor of New York on November 4 looks as certain as these things can be in a two-horse race. Yesterday, his re-election was enthusiastically endorsed by the New York Times, which suggested he had the potential to go down in history as a mayor who turned New York City round and reshaped its future. His Democratic opponent is swinging in the wind.

A recent study from the Federal Reserve Bank of New York helps to explain the popularity of a civic leader who is much more respected than loved. It shows there has been strong employment growth in the New York City metropolitan area during recent years, in marked contrast to a lacklustre trend in job creation across the state.

In part, this is a matter of luck. The analysis shows how record profitability on Wall Street – for which not even His Honour claims credit – has fuelled tbe city's economy. Wages in finance, insurance and real estate rose by 15 per cent in 1996, and the impact of this has spread well beyond real estate agents and restaurateurs.

But the Giuliani administration has had a big part to play in anothar important component of the job creation record. New York used to be regarded by most right minded Americans as second only to Pyongyang as the world's least attractive holiday spot.

In the past few years, however, it has emerged as a prima tourist destination. The study sbows how the resurgence of tourism has contributed to what it describes as a boom in the city's retail sector, with benefits coming from rising national and international demand. Hotel occupancy rates are at record levels, passenger arrivals at the area's three major airports are increasing, and the convention business has surged ahead.

The truth is that in recent years New York has become a much more attractive place in which to work and take a holiday. This is oot just the result of better policing, attacks on organised crime, and fewer petty felonies, important though these all are. Expectations have changed as well: the deterioration of civic facilities no longer seems inevitable. The subways are cleaner, public buildings have been spruced up, and the chances of being bothered by squeegee men or aggressive beggars have fallen sharply.

Of course New York remains a city with enormous social problems and surprisingly high unemployment. But the flinty faced Mr Giuliani is closely enough identified with recent successes to be all but assured of another spell at City Hall.

Turkish tangle

While everything else in Europe has changed since 1989, the European Union's Turkish headache remains essentially the same.

Turkey has been an associate member since 1964, with an explicit goal of full membership. Yet the EU public have not been educated to think of Turks as Europeans, while tha country'a relative poverty and rapidly growing population, combined with its poor human rights record, have made the EU establishment unwilling to contemplate Turkish membership in any meaningful timescale.

So periodically EU leaders embark on an effort to make Turkey feel appreciated, while avoiding as far as possible any concession of substance.

Such was the mood of EU foreign ministers at their weekend meeting in Mondorf-les-Bains. Their minds were concentrated by the approaching deadline for opening negotiations with the next wave of candidates for EU membership. On Greek insistance, that wave will include Cyprus, currently represented by a purely Greek Cypriot government which controls only three-fifths of its nominal territory.

Turkey takes a very dim view of this, and has threatened, if accession talks start on that basis, to abandon any further efforts to reunify the island through talks between the Green and Turkish Cypriots, while intensifying the integration of northern Cyprus with the Turkish mainland.

Most EU governments hope to avert that threat by including Turkey in an annual "European conference", of states with a "vocation" for EU membership, which would hold its first meeting in London early next year. But Turks themselves seem more preoccupied with tha EU's failure to deliver promised financial aid, and with rising tension in the Aegean where there have been several near clashes between Greek and Turkish forces in recent weeks.

The two issues are connected, because Greece is blocking the financial aid until Turkey explicitly recognises its borders in the Aegean or agrees to taka any outstanding disputes to the World Court.

Such an agreement appeared to have been reached at the Nato summit in July, but has unravelled since for reasons that are hard to undarstand. The two countries' political leaders – Costas Simitis and Mesut Yilmaz – both seem genuinely anxious to solve their differences, but perhaps lack full control of their respective armed forces.

The tangle of issues in Cyprus and tha Aegean remains much as it has been since the 1970s. But the urgency of untangling them has never been greater.

Jiang comes to town

Tony Walker, Bruce Clark and James Harding assess the importance, and controversy, of the Chinese leader's US visit

China and tbe US stand at the threshold of a new era in relations. But fractious opposition in the US to closer ties complicates what is arguably the single most important foreign policy partnership of the post-cold war world.

This week's meeting between presidents Bill Clinton and Jiang Zemin is shaping up to be the highest-profile summit of tbe Clinton presidency. Meticulous preparation – this is the first visit to Washingtoo by a Chinese bead of state in more than a decade – reflects tbe high stakes.

Success will bolster the US policy of "constructive engagement" with China, while a setback would risk souring relations for years and bring repercussions well beyond Beijiog and Washington.

"It is quite possible the relationship between the US and China will, more than any other foreign tie, define international affairs in the first half of next century," says Ricbard Haass, director of foreign policy studies at the Brookings Institutioo.

A western ambassador in Beijing describes the summit as of the "utmost importance" for those in the west and in China who want to draw a line under the 1989 Tiananmen Square massacre. "This is the relaunch of a relationship that went badly sour in 1989," he says.

Quite apart from its foreign policy implications, the summit is also important politically for Mr Jiang and Mr Clinton. Mr Jiang will use tbe visit to enhance his standing at bome as a leader who has overcome the stigma of the Tiananmen Square massacre and restored international regard for China. Mr Clinton, wbo has not secured the conspicuous foreign policy successes of his predecessors, will be intent on consolidating relations witb China as part of attempts to burnish his own record.

Mr Clinton's speech last week, which spelled out wby better relations with China were essential, reflected the importance being attacbed to a successful Jiang visit and coocerns about the possibility of protests marring the occasion. It was the most comprehensive China policy statement of Mr Clinton's presidency.

"As always, America must be prepared to live and flourish in a world in which we are at odds with China," he said. "But that is not the world we want. Our objective is not containment and conflict; it is co-operation. We will far better serve our interests, and principles, if we work with a China that shares that objective with us."

Those aims are unimpeachable. But US-China policy is buffeted by powerful cross-currents from human rights activists and labour leaders on the left to religious campaigners on the Republican right. While anti-China activism among US politicians has waned somewhat, in part because of the huge US business interests at stake, sections of the US public still harbour deep suspicions of China. Negative media coverage has added to pressures on the administration and reflects US difficulties in getting to grips with a resurgent China.

"China is the most difficult foreign policy issue for tbe US," says Fareed Zakaria of the Council of Foreign Relations. "Russia and China are the two great powers outside the international order imposed by the US and other western powers after 1991. In a sense the US knows wbat to do with Russia. But China is genuinely perplexing: a market-Leninist society of a kind never seen before."

Conservative groups, among the strongest critics of the administration's China policy, appear to have difficulty working out what it is they dislike most about China. Divisions in their ranks was one of the reasons for this year's failed attempt to block renewal of Chioa's Most Favoured Nation Status.

"It's obvious we've got to interact with the Chinese, but there should be engagement from a position of strength," says Stephen Yates of the Heritage Foundation. "Our answer to the debate over wbether trade or human rights comes first is that national security takes first place."

Other conservatives such as Jesse Helms, cbairman of the Senate Foreign Relations Committee and a diehard critic of China, tend to focus more on human rights. "Nobody is saying we want a cold war with China," says a Helms spokesman. "But we can't separate relations with China from the way they treat their own people. There is no strategic rationalisation for coddling human-rights abusers."

The mainstream US defeoce establishment takes a fairly benign view of the China "threat" at this stage, while recognising that Beijing is intent on securing the necessary hardware to assert itself regionally. There is a small, but vocal, minority of US defence experts wbo believe China is actively preparing for a high-tech, information-age war against the US.

China, on the other hand, appears in no doubt about what it wants from relations with the US and from Mr Jiang's visit in particular. Tao Wenzhao, deputy director of the Institute of American Studies in the Academy of Social Sciences, a government think tank, says Mr Jiang aims to build on tha legacy of Deng Xiaoping who visited the US nearly two decades ago.

"The Deng Xiaoping visit in 1979 normalised Sino-US relations after more than 20 years of confrontation and separation," says Mr Tao. "Jiang's visit will further normalise relations, which have been unstable since 1989."

According to Mr Tao, Mr Jiang's trip to the US has two broad aims: to stimulate regular meetings at the highest levels of the respective administrations, and to secure a "few concrete agreements" on such issues as military co-operation, non-proliferation, and trade. Fortunately for Mr Jiang, tbese objectives more or less accord with those of Washington.

Among few specific agreements expected during the summit is a US undertaking to permit the sale of US nuclear technology to China. This will be dona under a 1985 noclear co-operation agreement which requires both administration and congressional endorsement.

Ultimately, the summit's success will rest on the personal chemistry between Mr Clinton and Mr Jiang. The two have met on several occasions at Asla Pacific Ecooomic Co-operation (Apec) forums. This, though, will be the first time they have sat down together in the Oval Office.

If the summit builds a "better awareness" of the array of national interests at stake, says Kenneth Lieberthal, professor of politics at the University of Michigan, then it will mark a "necessary step towards achieving a very important objective: namely to put US-China relations oo a stable, predictable and far more realistic basia. "Tha summit is important not only for the US but for the whole of Asia," he says. "If the relationship goes awry then consequences would spill over into the region."

Mindful of such responsibilities, the two leaders will strive to reach an understanding on such vexed issues as what to do about continuing instability on the Korean peninsula, differences over Taiwan, buman rights and China's growing trade surplus with the US.

Beijing and Washington have worked fairly closely in the past two years to preserve peace between the two Koreas: both recognise circumstances are volatile and require careful management. In the same way, the issue over Taiwan – regarded by Beijing as a renegade province – presents challenges for US and Chinese diplomacy to minimise risk of conflict.

Human rights and trade are other topics that, at ona time or another, will caose ructions. Mr Clinton will press Mr Jiang to expand a human rights dislogue along the lines of those recently agreed with the Canadians and Australians. But sucb discussions will hardly solve the range of buman rights questions that bedevil relations: from Tibet to the continued detention of high-profile dissidents.

The trade issua is becoming more pressing and risks further inflaming anti-China sentiment, especially among labour and its supporters in Congress. Figures showing China had leapfrogged Japan in August as having the biggest trade surplus with the US in that month were hardly auspicious on the eve of Mr Jiang's visit. The August trade gap with China rose by 9.6 per cent to $5.2bn, while that with Japan fell by 12.3 per cent to $4.53bn. China is heading for a surplus this year of about $50bn compared with $39.5bn in 1996.

Mr Clinton is certain to use these figures to press China to further open its economy and to make a more generous offer on terms for membership of the World Trade Organisation. The two leaders will focus on ways to advance WTO negotiations, but agreement on a timetable is not expected.

One of the most important topics for discussion will be a return visit to China by Mr Clinton. Agreement on an early reciprocal visit will be a test of the summit's success.

Another benchmark will be media portrayal of the Jiang visit, both in the US and in China. The administration will be hoping that positive images will overwhelm the negative, but human rights protestere and other advocacy groups will view the occasion as a golden opportunity to parade their concerns.

Mr Jiang, on his first important foray abroad since his confirmation as China's leader at the recant 15th Communist party congress, will be walking something of a tightrope. "Jiang will be mindful of the fact he is playing to two audiences: American and Chinese," says Mr Lieberthal. "What he is faced with is trying to hit a home run in two ballparks at the same time. And that won't be easy."

· OBSERVER ·

Diamond's hard edge

■ With plans abandoned to build BZW into a broad-based global investment operation, Barclays Bank of the UK appears to have made an embarrassing climbdown. Tell thet to smooth-talking American Bob Diamond.

Diamond, one of the few internal beneficiaries of the strategy switch, insists on presenting the surprise turnabout as an exciting opportunity. The change of plan, he says, is "an opportunity to become extremely focused on the integration of the credit product".

The new chief executive of Barclays Capital – all that will remain of BZW following the sale of its equities and mergers and acquisitions businesses – talks persuasively about a mature US market and argues that the future lies in Europe; there, he believes, Barclays Capital can make its mark in a large, liquid, single-currency credit market.

He's certainly got good reason to sound positive, given that the imminent disappearance of much of BZW will lift Diamond – already on the Barclays Group executive committee – several rungs up the management structure. The 44-year-old has moved rapidly since he was recruited from Credit Suisse First Boston by Barclays chief executive Martin Taylor in July 1996.

The man who reputedly earned more than $5m a year at CSFB and, presumably, a touch more now, says he loves to "build businesses". That doesn't stop some at BZW seeing him more as a ruthless job-cutter. Sounds like ha's Taylor-made.

Trapped

■ Japanese scientists just might have made a breakthrough in a problem which has been puzzling people for centuries: what is it about Japanese physiology that means their fondness for alcobol isn't matched by their tolerance levels?

In experiments, the scientists have found that, when mice are injected with alcohol, those lacking a particular enzyme in their brains take twice as long to right themselves after being flipped on their backs as their normal counterparts. It seems a sober mouse can get back on all fours within a second whila a "normal" but inebriated mouse takes 40 minutes: an enzyme-deprived but alcohol-rich little rodent, bowever, takes 80 minutes.

What the experiments do not reveal is whether alcohol-intolerant mice develop closer social ties with their fellows after the 80 minutes spent rolling around under the table and if they would voluntarily repeat the experience on a regular basis. More detailed experiments oo salarymen may follow.

Mixing it

■ Now that a 25 per cent stake is for sale in Fomento de Construcciones y Contratas, Spain's largest construction company, all Madrid is buzzing – and that includes the city's bean monde and its financiers alike.

Hardly surprising when the stake, worth an estimated $650m, is being sold by Alicia Koplowitz, one of Spain's wealthiest and most glamorous businesswomen. Even more intriguing, equally wealthy sister Esther is keeping hers.

The two women, respectively the Marquesa de Real Soccorro and the Marquesa de Casa Penalver, are daughters of the late Ernesto Koplowitz, a German Jew who fled Nazi persecution to found one of Spain's biggest business empires. Until now, they've been famous for sticking together.

Not only do they each own 28.3 per cent of the family business, but they married cousins Alberto Cortina and Albert Alcocer who cut a swathe through Spanish business in the late 80s at the helm of the Koplowitz empire. The two women split from their busbands at the same time and were even reported to have offered identical financial settlements to each Alberto.

So what's prompted this parting of the ways? Neither sister is saying but those in the know claim they've fallen out. Both have children and the suspicion is they couldn't agree how to parcel out suich an impressive empire among the junior Koplowitzs.

Shred it

■ When you delete a file from your computer it doesn't disappear for good. Instead it lurks on the hard disk until the disk is full and the space it occupies is overwritten by new files. All of which threatens to be more than a bit embarrassing, now the courts have caught on and have taken to collecting hard disks as evidence.

American professor and author George Friedman has come up with an answer: his very own 'Shredder' software guarantees to exterminate those nasty little deleted-but-not-dead files for good. What's more, he's already taken the first order for this inexpensive little gizmo – from a law firm operating in Little Rock, Arkansas.

The Financial Times

100 years ago

The Dynamite Concession

Johannesburg: In the course of the debate in the Raad to-day on the Dynamite Concession, President Kruger stoutly defended the protection of the concession, and stated that the credit of the country would be ruined if cancellation were effected. There is still some hope, however, of the latter course being adopted, as at a private meeting of the Volksraad members last night, the suggestion that free importation of explosives should be tried, at any rate for one year, was favourably received, whilst already this morning Mr Wolmarans has handed in a letter to the Volksraad from the dynamite company offering a further reduction of half-a-crown per case.

50 years ago

Liquid Latex Demand

Singapore: The increasing demand for rubber latex has been given prominence by the announcement of Harrisons and Crosfield that they have formed a new company to collect liquid latex from the companies in their group of estates to treat it for export. Prices for prepared latex are lower to-day than when sheet rubber was at its lowest in June.

FINANCIAL TIMES
Monday October 27 1997

US and China move toward nuclear deal

By Bruce Clark in Washington, Tony Walker in New York and James Harding in Beijing

The US said yesterday it had made "substantial progress" towards a nuclear co-operation deal with China that could bring tens of billions of dollars for US industry and crown this week's US-Chinese summit.

But President Jiang Zemin, making the first state visit to the US by a Chinese leader for 12 years, should expect to encounter protests as he toured the country, said Madeleine Albright, the secretary of state. The likelihood of protests meant the Chinese president "will not have ... a totally fuzzy time" during his visits to the shrines of American democracy in Washington, Philadelphia and Williamsburg, she added.

Talks about certifying China to receive US nuclear technology have made "very much more significant progress in the last week", said Mrs Albright.

As President Jiang flew to Hawaii for the first leg of a US trip that will reach a high point in Washington on Wednesday, US companies said they expected $3bn worth of orders as a result of the visit – on top of any power engineering business arising from the nuclear deal.

Charles Pryor, president of the nuclear division of the US company Westinghouse, said the expected nuclear accord was of "enormous importance" to his sector because of the "market for new plant opportunities is China".

He expected China to order between $50bn and $60bn worth of nuclear reactors over the next two decades, with a significant portion going to US suppliers if the Sino-American nuclear accord were sealed this week. Mrs Albright said President Bill Clinton was looking for "clear and unequivocal" assurances that China would not aid the rearmament programmes of countries such as Iran which are viewed by the US as pariah states.

Apart from nuclear business, a long-awaited Chinese order for 30 Boeing aircraft is expected to be announced this week. Over the past week China has agreed to buy 700,000 tonnes of US wheat and 500,000 tonnes of phosphate. China is also planning a co-operative venture with US companies to launch low-orbit satellites.

Mr Jiang pledged on Saturday to sign a United Nations covenant on economic, social and cultural rights, saying this reflected China's commitment to human rights at home and abroad. Yesterday the official Xinhua news agency issued a rare admission of failings. "There are still violations of human rights in social life," Xinhua said.

Jiang comes to town, Page 17

Japanese minister warns of slump as retail sales fall

By Paul Abrahams and Gillian Tett in Tokyo

Fresh signs of weakness in Japanese consumer demand have emerged after department store sales fell for the sixth successive month in September.

The figures were announced as a government minister argued that last week's economic stimulus package would be inadequate to prevent the economy falling into a slump.

Consumer confidence has been badly hit since April, when the controversial sales tax was increased by 2 percentage points to 5 per cent. Japan's gross domestic product fell 2.9 per cent in the April-to-June quarter.

Turnover at department stores fell 3.9 per cent to Y679bn ($5.6bn) in September. This followed a 1.2 per cent decline in August, according to the Japan Department Stores Association, which adjusts the figures to account for new outlets. The association blamed weak corporate demand and the fact that figures did not reflect that September contained one less Sunday than the same month last year. In Japan, department stores open on Sundays.

Shinpei Nukaya, deputy director general of the Economic Planning Agency, said the economy was marking time and denied it was heading for a recession.

However, Mitsuo Horiuchi, international trade and industry minister, warned that a "drastic, clear" stimulus package, including specific timetables for tax system reforms and other measures, was required if Japan was not to fall into a slump.

Mr Horiuchi's call came as Nikko Research Centre, an economic research group, unveiled one of the first studies on the likely impact of tax reforms on the economy.

In the short term, the research suggests, the fastest boost to the economy would come if the government increased public spending or cut income taxes.

A Y1,000bn rise in public spending would boost GDP by 0.2 per cent in the first year, while a Y1,000bn cut in income taxes would raise GDP by 0.08 per cent, the research shows.

A Y1,000bn net cut in corporate tax – which could be achieved by cutting the tax rate by 2.5 percentage points – would have less impact initially.

Invention could be just the job for colour-blind workers

By Roger Taylor

Job discrimination against the colour-blind could be a thing of the past if two Hungarian scientists are successful in promoting a new invention – glasses that restore colour vision.

The development will bring hope to those who are forbidden from working as policemen or airline pilots and who struggle each day to match a shirt and tie because of difficulties distinguishing colours.

George Abraham and Klara Wenzell of the Technical University of Budapest have spent 13 years developing the glasses and cite more than 100 jobs where colour vision is needed. The list includes fashion designers, house decorators and croupiers.

Mr Abraham and Ms Wenzell claim their glasses can restore full vision in more than one-fifth of cases and that the average improvement in vision is about 80 per cent.

The glasses only work against colour-deficiency – the inability to distinguish colours – a genetic condition that affects about 8 per cent of men. They have no effect on the less common condition of complete colour-blindness, found in about 0.5 per cent of men and women.

The two scientists have formed their own company, Colorytc, backed by First Hungary Fund, the venture capitalist, having rejected offers from Boots, the chemist, and two Japanese groups. They will start marketing the product in the US next month by approaching regulatory agencies responsible for safety on public transport.

Colour-blindness has become a matter of concern since a report in March revealed that a fatal train accident in New Jersey last year was caused by a colour-blind engineer driving through a red signal. Doctors had failed to diagnose his condition.

Mr Abraham and Ms Wenzell hope to persuade regulators that their colour-vision test is more accurate than existing methods and that, in many cases, a pair of their spectacles would make colour-deficient people employable.

The system is based on recent research findings that colour deficiency is the result of receptors tuned to wrong wavelengths. The system diagnoses which wavelengths eyes are attuned to and produces coatings for spectacles which adjust the colour spectrum to compensate.

First Hungary Fund is investing $12m in the company to build production facilities. A pair of colour-correcting glasses is expected to cost about $125 more than a normal pair.

THE LEX COLUMN

Flying down market

Can it be coincidence that British Airways' plan to launch its own low-cost airline leaks out just as Richard Branson gears up for a stock market flotation of Virgin Express? Very likely not. But for BA, much is at stake. To get into the "no frills" market is undeniably a big gamble. It is not just the tricky industrial relations implications of BA's more pampered staff reacting nervously to the prospect of a leaner operation down the road. Perhaps more important is the danger that BA's new operation could end up, in large part, cannibalising the airline's own customer base.

The fact is, however, that if BA does not tempt its more price-sensitive customers with a cheap and cheerful service from underrated airports such as London's Stansted, someone else almost certainly will. In effect, and ahead of its peer group, BA is rightly facing up to the reality that low-cost competition in Europe is here to stay. And who knows? If BA's new operation really is given genuine freedom to run itself entrepreneurially – as clearly it must – it could even end up teaching the rest of the business a thing or two.

Squeals of outrage from existing low-cost operators such as EasyJet should be taken with a pinch of salt. In principle, there is no reason why the big boys should be prevented from having a crack at this market. That said, they must do so on fair terms: the danger of predatory pricing from the low-cost arm of a big, financially strong national carrier is obvious. Regulators will need to watch them like hawks.

US equities

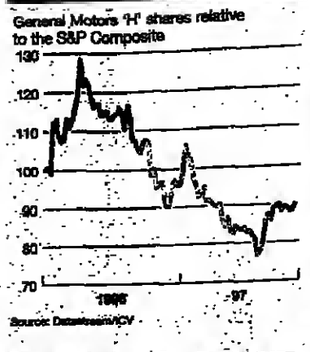
Seemingly unperturbed by events around them, US companies continue to generate solid profits growth. There have been a few high-profile disappointments, including Merck, Intel and Boeing. But these have been outweighed by stronger than expected showings from banks and brokers, oils and capital goods companies. With most of the third-quarter results declared, year-on-year earnings growth for the stock market is running at a healthy 10 per cent, and should not fall far short of that for all of 1997.

Next year could be very different. Domestic economic growth is moderating, interest rates are set to rise and there is the risk that wage costs will finally start to lift. Abroad, the ripple effects of Asia's problems will affect US exports and the translation of overseas earnings. US companies' operating margins, which have risen steadily since 1991, are now at an historic high of 16 per cent. While productivity has undoubtedly improved, it is questionable how much further margins can grow from here.

The consequence looks likely to be a slowing in earnings growth to between 5 per cent and 7 per cent. Yet the S&P 500 index is still trading at a lofty 20 times 1998 earnings. Such valuations suggest a significant downside risk.

Hughes Electronics

General Motors 'H' shares relative to the S&P Composite



Source: Datastream/ICV

Hughes Electronics

Launching the new-look Hughes Electronics has proved trickier than getting one of the company's satellites into orbit. Since announcing a convoluted restructuring of Hughes in January, General Motors, its 74 per cent parent, has had to secure regulatory approval, sweeten the deal to win over reluctant shareholders and find a replacement for Hughes's poached boss, Michael Armstrong. Shorn of defence and auto parts, Hughes will be the world's largest manufacturer and operator of satellites and a big provider of wireless telecoms equipment. On top, it has a number of rapidly growing but loss-making development businesses, primarily DirecTV satellite television, and more than $2bn in net cash.

At $68 a share, Hughes is capitalised at just over $27bn. Around $32 a share is the value of Raytheon stock Hughes holders will get in exchange for the defence and auto businesses. The cash accounts for another $5 per share and the group's majority stake in quoted satellite carrier PanAmSat a further $11. That leaves $20 a share or roughly $8bn for the other businesses. Satellite and telecoms, whose revenues are growing at 10 per cent to 15 per cent a year, might be worth around $3.5bn on nine times forecast earnings before interest, tax, depreciation and amortisation (ebitda) – and maybe more if they were eventually floated off separately.

The real potential, but also the risk, lies in the development businesses. Six years from now, DirecTV could have sales of $4bn and ebitda of $1bn in the US alone. When AT&T took a 2.5 per cent stake in DirecTV last year, it valued it at $5.5bn. But since then subscriber growth has slowed as management – now led by Michael Smith, brother of GM's chairman John – has been much more cautious in expanding, allowing rivals such as EchoStar to catch up. Even so, lump in other projects such as DirecPC and Spaceway, and the bits should be worth more than $8bn in total. Add all that together, and Hughes shares look at least 10 per cent too cheap.

United Utilities

That a candidate has been identified to replace Sir Desmond Pitcher as chairman of United Utilities is excellent news. Not only does Sir Desmond have a lousy record of cohabitation with his chief executives; he has plainly lost the confidence of too many shareholders. Understandably, the company's opaque August statement left many investors uneasy on whether the succession question was being properly tackled. But it evidently was.

We are not, however, quite out of the woods. For one thing, the proposed candidate has still to be approved at a board meeting tomorrow. Conceivably, Sir Desmond could yet put up a fight. Perhaps a more likely danger, however, is that the handover will in some way be fudged to save face – Sir Desmond's departure being delayed for a bit, say, or his remaining on the board in a non-executive capacity.

Any such wheeze should be resisted. Once a candidate has been approved by the board, a quick and clean transition is needed. For one thing, Sir Desmond's presence continues to dog the share price. For another, this episode has become an important broader test of boards' responsiveness to shareholders' concerns over unsatisfactory management. The big institutions have made it unusually clear that they want Sir Desmond to go in good order. It is important that he does.

Amsterdam bourse raided

Continued from Page 1

examining evidence that this was linked to transactions conducted for members of a criminal organisation.

They believed share-trading accounts, held under code names, may have been used to launder income from activities such as drug-dealing. Other alleged offences being investigated included forgery, paying bribes, receiving stolen goods and tax fraud.

Mr Vermeulen and two colleagues also detained over the weekend will have to be charged by this morning unless a judge rules they may remain confined. Amsterdam Exchanges (AEX), operator of the Dutch equity and derivatives markets, said it would stand by clients of Leemhuis & Van Loon. If necessary, it would install managers to ensure the broker did not have its obligations disrupted.

The AEX was warned last Thursday that a raid was imminent. In the past few weeks it had supplied the authorities with documents requested about dealings by Leemhuis and Capel as well as NIB Securities and Gestion. These two local brokerage houses also had their premises searched on Friday.

UK on Emu

Continued from Page 1

parliament" and would make its decision on "economic, not political, grounds".

Planned measures to prepare for Emu include the possibility of allowing the new currency to be used in parallel with sterling and a commitment to try to align the UK economic cycle with continental Europe's.

The new approach to Emu, which is one of the most contentious issues in British politics, has been called "prepare and decide" by ministers, in contrast to the previous government's so-called "wait and see" policy.

FT WEATHER GUIDE

Europe today

Norway will have snow showers in the north and west, with a spell of sleet and snow in the south. Other parts of Scandinavia will have isolated showers and sunny spells. Overnight rain in Switzerland and Austria will gradually give way to sunny spells.

The Low Countries and Germany will be dry with fog patches, which may linger all day in parts of Germany. After the fog, there will be sunny spells.

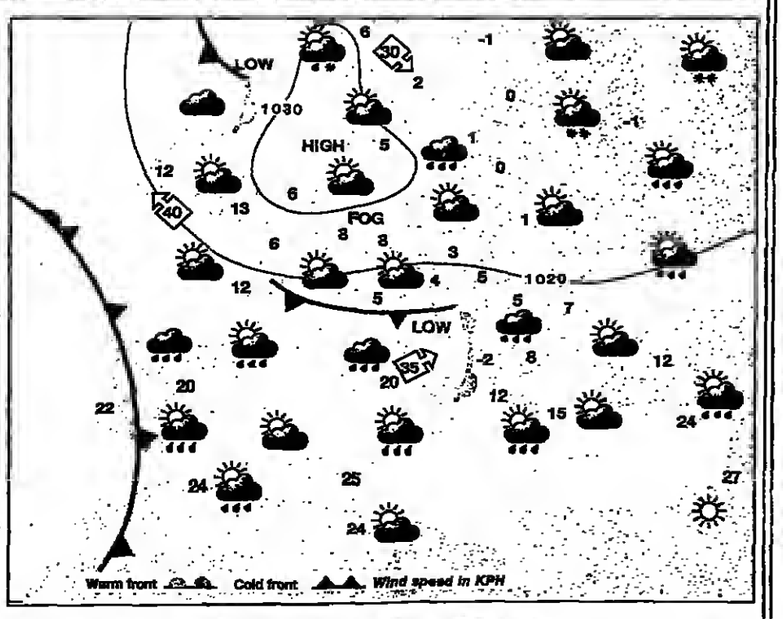
Central and southern parts of France will have early fog followed by sunny breaks. The Mediterranean will be unsettled with showers. Eastern Europe will be cold with showers.

Five-day forecast

Eastern Europe will remain cold with showers or longer spells of rain and snow.

The Mediterranean will have showers in many parts, heavy and locally thundery.

Western Europe will stay dry but there will be fog in many parts.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

	Maximum/ Celcius/														
		Beijing	fair 11	Cardiff	fair 13	Frankfurt	sun 7	Madrid	shower 20	Rangoon	fair 31
		Belfast	cloudy 12	Casablanca	fair 22	Geneva	fair 9	Majorca	fair 22	Reykjavik	cloudy 9
Abu Dhabi	sun 31	Belgrade	shower 5	Chicago	cloudy 5	Gibraltar	shower 21	Malta	shower 21	Rio	thunder 27
Accra	sun 31	Berlin	fair 4	Cologne	sun 6	Glasgow	cloudy 12	Manchester	cloudy 12	Rome	rain 20
Algiers	shower 24	Bermuda	fair 28	Dakar	sun 30	Hamburg	fair 4	Manila	thunder 30	S. Frsco	sun 21
Amsterdam	fair 6	Bogota	fair 19	Dallas	sun 21	Helsinki	cloudy -1	Melbourne	sun 23	Seoul	fair 12
Athens	fair 15	Bombay	fair 34	Delhi	sun 27	Hong Kong	cloudy 25	Mexico City	cloudy 24	Singapore	thunder 31
Atlanta	fair 19	Brussels	fair 6	Dubai	sun 34	Honolulu	fair 30	Miami	fair 30	Stockholm	fair 2
B. Aires	shower 27	Budapest	sleet 3	Dublin	fair 12	Istanbul	rain 12	Milan	shower 14	Strasbourg	cloudy 9
B.ham	fair 13	C.hagen	fair 5	Dubrovnik	cloudy 14	Jakarta	fair 33	Montreal	sleet 4	Sydney	thunder 28
Bangkok	shower 33	Cairo	fair 27	Edinburgh	cloudy 11	Jersey	fair 14	Moscow	snow -1	Tangier	shower 22
Barcelona	shower 20	Caracas	fair 32	Faro	fair 23	Johannesburg	sun 27	Munich	cloudy 3	Tel Aviv	thunder 27
						Karachi	sun 33	Nairobi	fair 26	Tokyo	fair 19
						Kuwait	fair 51	Naples	cloudy 17	Toronto	cloudy 8
						L. Angeles	sun 23	Nassau	fair 31	Vancouver	cloudy 11
						Las Palmas	fair 25	New York	fair 17	Venice	cloudy 14
						Lima	fair 23	Nice	fair 18	Vienna	cloudy 5
						Lisbon	drzl 22	Nicosia	sun 24	Warsaw	cloudy 1
						London	cloudy 13	Oslo	fair 6	Washington	shower 19
						Luxbourg	fair 8	Paris	fair 12	Wellington	fair 16
						Lyon	sun 10	Perth	fair 22	Winnipeg	cloudy 10
						Madeira	fair 24	Prague	fair 3	Zurich	cloudy 7

FINANCIAL TIMES
COMPANIES & MARKETS
Monday October 27 1997 Week 44

INSIDE

Intervention proves effective

Direct intervention by monetary authorities is back in fashion, thanks to a stalwart performance by the Hong Kong Monetary Authority last week in defending its dollar peg. The HKMA proved it is possible to control the exchange rate of an overvalued currency against market forces. Singapore and South Korea have also played their hands well in defending their currencies, while the Japanese have "spooked" the market so skilfully in recent months – to rein in the dollar – that the market now does it for them. Page 27

SKI BATTLE
A series of celebrations is planned for Saturday in Nagano, central Japan, to mark the start of the 100-day countdown to opening the Winter Olympics. But the enthusiasm is overshadowed by a continuing dispute between the Olympic committee and the Japanese about the starting point of the men's downhill skiing race.
PIPE DREAMS
European Union energy ministers meet in Luxembourg today to renew attempts to agree long-delayed plans to break down the power of monopoly suppliers and allow competition in Europe's $100bn-a-year gas supply market.

Companies in this Issue

Market Statistics http://www.FT.com

BMW seen as favourite to buy UK luxury carmaker after Vickers decides to sell

Rolls-Royce Motor to be sold

By Alexander Nicoll in London

Vickers will announce today that it is putting Rolls-Royce Motor Cars up for sale in what marks a sharp departure from tha engineering group's previous strategy.

BMW of Germany, which makes engines for Rolls-Royce and Bentley models, would emerge as bot favourite to win the last UK luxury carmaker to remain ontsida a larger automotive group.

Sir Colin Chandler, Vickers chairman, had insisted until now that Rolls-Royce Motor Cars was not for sale even though the group is selling its medical equipment businesses as part of a strategy to focus on core interests, which include the manufacture of armoured vehicles and propulsion technology products.

The decision to sell will surprise experts, partly because Rolls-Royce Motor Cars, based in Crewe, is in tha late stages of developing a new generation of Rolls-Royce and Bentley models. Although Vickers has given no indication of the launch date, the new cars are expected to be unveiled around the middle of next year.

The company has spent heavily to create a body assembly plant and on reorganising its production line. However, its decision to use BMW-built engines gives the German company a clear inside track among car manufacturers which might wish to buy it.

BMW has said that it is interested in buying Rolls-Royce Motor Cars should it come on the market. It is believed to have a further advantage in that it has a jet angine venture with Rolls Royce, the UK aero engine group which is entirely separate from Vickers but which retains right of veto on use of the Rolls-Royce name.

Rolls-Royce Motor Cars is profitable although its performance is not disclosed. Its figures are included in Vickers's automotive division, which made operating profits of £37.6m ($61.2m) in 1996 on turnover of £417.5m. The division is the largest within Vickers, which made 1996 operating profits of £81.7m on turnover of £1.08bn from continuing operations.

Car sales have been rising – 1,396 Rolls-Royce and Bentley cars were sold in the first nine months of 1997, up 9 per cent on the period a year ago – but margins have been squeezed by discounting, partly because of market awareness of imminent new models. The group, which includes the Cosworth engine business, had operating profit of £9.8m in first half 1997, down from £13.5m, on turnover virtually unchanged at £200.6m (£196.6m).

For Vickers, which had net debt of £37.2m at June 30 1997, the sale of Rolls-Royce Motor Cars would provide a cash boost which could allow it to expand in remaining core areas.

MoD in tank tender, Page 8

Eurotunnel plan wins banks' approval

By Charis Gresser in London

Banks holding 97 per cent of Eurotunnal's debt by value have agreed to the company's £8.5bn restructuring plan. "This is clearly good news and wa are fully confident of reaching 100 per cent," said Eurotunnel yesterday.

The plans require unanimous approval from Eurotunnel's 174 creditor banks before new credit agreements can be signed with the tunnel operator. This is expected next month.

The company's dabt currently trades at 54½p in the pound, and has strengthened over the past few months, as confidence has grown that the deal will go ahead. In July, Eurotunnel debt was trading at under 50 per cent of its face value. The company is still negotiating with the UK and French governments to win an extension of its operating licence.

In July, the company reached a provisional agreement with both governments to extend the licence by 34 years to 99 years. This was seen as an important factor in persuading Eurotunnel's small French shareholders to back tha restructuring in July.

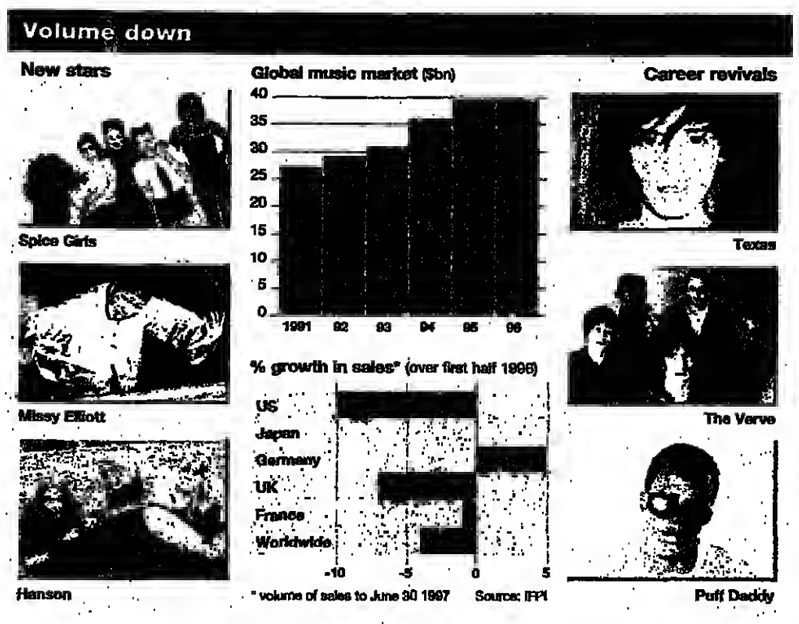
Last month, the UK'a Department of Transport said it was seeking changes in the agreement. It wanted a firmer commitment from the company to increase rail-freight shipments, and suggested it might demand a bigger share of future profits if this were not achieved.

Eurotunnel is believed to have suggested that it could cut rates for start-up freight projects on a case-by-casa basis. But it is reluctant to cut overall freight tariffs, which would affect the revenue and casb flow projections in its restructuring prospectus.

An internal report, circulated to both governments, has also concluded that moving freight through the tunnel by rail costs broadly the same as it does by lorry on Eurotunnel's freight shuttles.

The freight industry estimates, however, that it costs 2½ times more to move a tonne of freight by rail as it does by lorry.

Eurotunnel will be anxious to settle the issue of its licence extension soon because it plans to issue warrants in the new year whose value will depend in part on the extension of the concession.



Unpredictable music market hit by low sales

Record labels reshuffle management to cut costs

By Alice Rawsthorn in London

No record company likes to hear of one of its stars firing ber managers in the same week that her new album is released, particularly if that album was the first of four on an $85m contract.

This is the problem facing Virgin Records, a subsidiary of the EMI group, since the debut of Janet Jackson's *The Velvet Rope* a fortnight ago. It entered the US chart at number one, before slipping to number two in its second week, but sales have fallen below expectations in other countries.

Other record labels are also facing difficulties. Time Warner, Sony and PolyGram have reshuffled their management to cut costs and improve performance in an increasingly volatile market.

The immediate problem confronting the industry is sluggish sales. After a decada when sales soared from $14bn worldwide in 1986 to $40bn in 1995, according to the International Federation of the Phonographic Industry (IFPI), tha music market stalled last year, and fell by 4 per cent in volume during the first half of 1997.

Tha market for compact discs is mature and sales are determined by the popularity of new releases. This problem is aggravated by the market's unpredictability. This year's charts have been dominated by new names such as tha Spice Girls, or by established acts which have taken off, such as The Verve and Puff Daddy. Releases by snperstars have faltered. "Some releases haven't worked as well as we expected – and big hits have come from nowhere," says Alain Lévy, president of PolyGram.

In the past record companies recouped their investment on expensive deals such as Janet Jackson's by selling albums at premium prices, bnt pricing is now less flexible.

When record sales first slowed, many companies responded by spending more on marketing, but some companies are now pruning promotional expenditure. Managers at Virgin Records and Warner Bros in the US, Sony's Epic label, and PolyGram's future appointees at Motown and Island Records, will be expected to continue cutting costs, whila attuning their labels to a mercurial market.

They must also address the longer-term structural issues facing the industry, such as the increase in sales of pirated recordings, which reached an unprecedented $5bn last year.

In the past music pirates concentrated on counterfeit cassettes, but reductions in the cost of CD production equipment has prompted them to switch formats. Last month, the IFPI hired the former head of the Hong Kong Police's anti-narcotics squad to establish a worldwide anti-piracy network. But the industry must mobilise political support to yield successful prosecutions, particularly in places with lax copyright law.

The internet and other digital distribution systems, such as high-speed cable television and telecommunications networks, promisa to create a lucrative, low cost means of distribution for music. However, the industry cannot realise its commercial potential without legal and technical protection to control digital transmissions of material, and to secure payment for it.

Some progress has haan made in securing political support for the principle of digital copyright protection, hut the music industry's interests conflict with those of the telecommunications and computing lobbies in soma areas, notably bome copying.

Tha resolution of these issues, as much as the fate of Janet Jackson's latest release, will determina the music industry's chances of returning to growth again.

DTB to launch mortgage bond futures contract

By Edward Luce in London

Deutscbe Termin Börse, Germany's leading derivatives exchange, is to launch a futures contract based on the country's mortgage-bond market as part of its drive to gain market share in advance of European monetary union.

The future, which would enable clients to bedge risks against Europe's second largest bond market, the Pfandbrief, is DTB's latest move to win business from the dominant London International Financial Futures and Options Exchange.

Last week DTB overtook Liffe's volumes in trading on the benchmark 10-year German government bond future. But Liffe, which maintains its market share in short-term German and Italian interest rate futures and in most options contracts, remains a mnch larger exchange than its Frankfurt-based rival.

DTB bopes its decision to launch a future on the $950bn Pfandbrief market – the second largest pool of outstanding bonds in Europe after Italian government bonds – will encourage clients to switch to Frankfurt before Emu.

"The Pfandbrief market is one of the most liquid markets in the world," said an official in Frankfurt. "Having a future on Pfandbrief will allow clients to hedge against movements in the German government bond market and in movements of the future auro-denominated bond market after 1999."

Pfandbrief are bonds issued by Germany's 10 or 12 leading mortgage banks. In exchange for accepting a lower coupon, investors have legal priority over a share of the issuing bank's balance sheet – generally mortgages but sometimes loans. This enables most of the banks to obtain AAA credit ratings from the US-based credit rating agencies which lowers their cost of funding.

Officials at DTB, which is aiming to take the laad in offering derivatives based on tha future European single currency, believe the Pfandbrief future will entice more investors away from London. The contract, which will be based on a basket of Pfandbrief bonds, is expected to be launched in early 1998.

Germany's mortgage banks are preparing for Emu by internationalising their Pfandbrief offerings. Last week, Hypo In Essen, Germany's sixth largest mortgage bank, became the first to issua a Pfandbrief denominated in sterling. Otber mortgage banks have issued global Pfandbrief bonds in D-Marks and US dollars. "The mortgage banks want to capture a wider investor base before European monetary union," said an official at HSBC Markets, which underwrote last week's sterling bond. "We are seeing the start of a big internationalisation of the Pfandbrief market."

Cut-price airline warns BA on any low-cost challenge

By Michael Skapinker in London

EasyJet, the UK-based cut-price airline, said yesterday it would take legal action against British Airways if the large carrier set up its own no-frills operation.

Stelios Haji-Ioannou, EasyJet's chairman, said he believed any decision by BA to set up a low-cost carrier would be an abuse of its dominant market position. Mr Haji-Ioannon said BA had discussed acquiring EasyJet during the past year. Ha was concerned the large carrier might use the information gained to make its push into the low-cost market.

BA, which earlier this year began a study of the no-frills market, said yesterday that it had not made a final decision about whether to launch a low-cost carrier. But BA is believed to be close to a decision, with an announcement possible as early as next month.

BA is believed to have concluded that it could no longer ignore the low-cost, no-frills airlines, such as EasyJet, Ryanair of Ireland and Richard Branson's Virgin Express. Cut-price competition from EasyJet was one reason BA decided last month to abandon its loss-making service from London's Heathrow airport to Inverness in Scotland.

Ryanair and EasyJet both plan to expand their services between London and continental Europe. Virgin Express, based in Belgium, recently announced plans to float in Brussels and New York to finance its expansion.

BA is thought to have discussed establishing a low-cost base with two London airports, Stansted and Luton. Stansted is the more likely, as Luton is congested. Industry observers say BA is considering leasing four Boeing 737-300s for next summer, which could be used for a low-cost airline.

BA talked to Ryanair about acquiring it a few years ago, but turned its attention to EasyJet during the past year. BA is believed to have told EasyJat that it was worried that an acquisition would not win the approval of the UK regulatory authorities.

Mr Haji-Ioannou said yesterday he did not believe BA could argue that launching a cut-price alternative would enhance shareholder valne. He said if BA went ahead, be would allege the sole purpose would be to drive companies such as his out of business.

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Hong Kong's market has brought adversity and opportunity since the fall

China share listings postponed

By John Ridding in Hong Kong and James Harding in Beijing

Hong Kong share issues by China-controlled companies are being postponed as a result of the sharp falls and volatility in the territory's stock market, raising concerns about an important source of funding for mainland companies.

Casualties so far include the planned flotation by China National Aviation Corporation (CNAC), one of the biggest by a mainland company, which had been expected to raise more than HK$1.1bn (US$142m). Yanzhou Coal Mining said at the weekend it would also delay its planned Hong Kong listing. Several other mainland companies are reviewing proposed issues.

"Despite the encouraging preliminary investment response we believe market conditions are currently unfavourable," said Luo Taiyan, executive director of Yanzhou Coal, the mining group based in China's north-east Shandong province.

CNAC said its recently-completed international roadshow had been well-received, but that the "extreme volatility" of trading on the Hong Kong stock exchange had "made it impossible to determine an issue price reflecting the company's business and prospects".

Industry analysts said the duration of delays would depend on whether the Hong Kong market recovered. "If this proves short-lived then the problem won't be too serious," said an investment banker involved in one China issue. "The worry is protracted turbulence, which could really mess up funding plans for a number of big mainland companies."

While New York, London and Singapore have attracted mainland listings, Hong Kong's stock market has developed as the most important source of international capital for mainland industry, with combined flotations by "red chips" and H-shares totalling more than US$4.2bn in the first eight months of this year. Red chips are the Hong Kong arms of mainland businesses or government agencies, while H-shares are Hong Kong listings of mainland state-owned enterprises.

Following last month's Communist Party Congress, in which President Jiang Zemin placed priority on reform of ailing state-owned enterprises, investment bankers in Hong Kong anticipated a steady increase in issues. Goldman Sachs, the US investment bank identified at least 10 H-share listing candidates which could raise more than US$2bn over the next six months. It said many red chip issues were also in the pipeline.

Red chips and H-shares have plunged in Hong Kong over recent months, falling by about 50 per cent since their August peaks.

Both indices staged a strong rebound on Friday, boosted by a recovery in China Telecom, the US$4bn flotation that fell on its debut on Thursday. But analysts said sentiment remained fragile.

Apart from CNAC, the commercial arm of China's aviation regulator, and Yanzhou Coal, question marks hang over proposed listings by the business arm of the Tianjin municipal government, and Sichuan Chemical Works.

Great Eagle cancels rights issue plan

Great Eagle, the Hong Kong property developer, yesterday cancelled plans for a HK$1.08bn (US$140m) rights issue to fund the acquisition of US hotels, writes John Ridding. Despite the cancellation, which was blamed on "the exceptional deterioration" in Hong Kong stock market conditions, the group said proceeds from a HK$1.09bn share placement and existing working capital would allow it to complete existing projects. The company announced the rights issue last month to fund expansion into the US hotels market through the purchase of stakes in six Fairmont Hotels and the formation of an alliance with Prince Alwaleed bin Talaal bin Abdulaziz al Saud, a Saudi investor.

Under the terms of the placement, the Lo Ying-shek family will subscribe to 84m new shares at HK$13 per share and participate in a 1-for-5 bonus issue of warrants. Shares have also been placed with institutions.

Falling prices spark buy-back opportunity

By Louise Lucas in Hong Kong

Hong Kong companies last week took advantage of plummeting share prices to buy their own shares – and so help support the market.

Asian companies have been slower than their western counterparts to launch share buy-backs, although Hong Kong stock market rules paving the way for buy-backs were announced in April 1991. Moreover, Asian buy-backs tend to be opportunistic rather than strategic.

The most active buyers last week were big companies that previously exercised buy-back programmes, including Cathay Pacific and parents Swire Pacific and Citic Pacific, as well as Sino Land.

"It is a very standard reaction to severe market shocks. If the market were to continue to operate at these kinds of levels I would not be surprised to see more," said Michael Sargent, director of Asia-Pacific equity research at Salomon Brothers.

Kam-ming Wong, head of Hong Kong research at SBC Warburg Dillon Read, said the companies buying back shares were trying to send two signals: they believe their stock is cheap, and to improve earnings per share.

So far there is no evidence that companies have been taking advantage of the low prices to snap up others' stock – although disclosure rules allow 10 days before this has to be made public.

But brokers reckon it is likely Li Ka-shing, the tycoon who controls two of Hong Kong's biggest companies and who in August started buying into Jardine Matheson and its property arm Hongkong Land, has been adding to these stakes.

Some of the biggest share buy-backs have been by red chips, the mainland backed companies. First Shanghai Investments, whose share price fell 30.5 per cent on Thursday to HK$1.07, bought 19.2m shares two days previously at a price of between HK$1.65 and HK$1.75.

Citic Pacific, China's main international investment agency, bought back 2.53m shares at prices ranging from HK$35.80 to HK$37.50 on Tuesday – higher than the bargain HK$33 at which Larry Yung, chairman, and other directors bought a 15 per cent stake last December, but sharply lower than the HK$53.25 year high.

But by Thursday the price of Citic Pacific stock was lower than any of these at HK$30.30.

Several companies returned to the market each day last week as their shares fell, including Swire Pacific, the British-controlled conglomerate, and Sino Land, the property developer whose chairman, Robert Ng, took one of the biggest hits during the 1987 stock market crash.

Another daily participant – South China Brokerage, a local securities company, bought back 16m shares. It paid a maximum HK$0.245 on Monday and HK$0.189 on Thursday, when its share price closed at HK$0.178.

"It's a prudent move by corporates, particularly if their share price is below book value – so long as you have the money in the balance sheet," said Steve Thompson, chief analyst at Nikko Research Center (HK).

The Hong Kong market suffered its worst fall for a decade

Fleming launches African debt fund

By Joel Kibazo

Fleming Investment Management, the fund management group, is to launch a $30m fund to buy African debt for Korean investors.

The fund manager said the current turmoil in world markets presented a good opportunity to buy into Africa and the fund had been established in response to investors that had received favourable returns from other emerging markets such as Russia and India.

The African Emerging Markets Debt Fund, a fixed income fund being launched tomorrow with Korean firm Hanil Securities, will invest about 60 per cent of its $30m in South African debt. The remainder will be invested in Ivory Coast, Kenya and Nigeria.

Fleming said 12 Korean institutional investors had already subscribed to the fund to complete its financing.

Although many of Africa's stock markets escaped a retreat last week, South African government bonds and shares fell sharply as they followed the trend in world markets. But Fleming suggests the fundamentals and high real yields should provide a cushion.

Keith Swahey, of Flemings, said: "Bond yields of about 14 per cent in South Africa and 27 per cent in Kenya make this a good time to launch this fund.

"Although there are some short-term concerns with world markets currently being unsettled, in the medium-term the African story stands on its own merits."

The establishment of the new fund is the second time Fleming has linked up with Hanil. The first fund launched in April raised $25m and was invested in Ukrainian, Russian and Indian debt.

Shareholders unite against Liberty chief

By Robert Wright

The Stewart-Liberty family, founders of Liberty, the upmarket retailer, have joined with Brian Myerson, once their fiercest critic, in an effort to depose Liberty's chairman, it emerged yesterday.

The surprise alliance, representing 44 per cent of the Liberty shares, makes it almost certain that Denis Cassidy, Liberty chairman, will be forced to stand down at an extraordinary meeting.

The groups want to elect two non-executive directors to the board: Mr Myerson, whose Concerto Capital Corporation, based on his family's investments, controls 17 per cent of the shares; and Odile Griffith, financial adviser to five immediate Stewart-Liberty family members who control 27.2 per cent. Neither Mr Myerson nor Ms Griffith would say yesterday which of them would take Mr Cassidy's place as chairman.

Mr Myerson first invested in Liberty in 1992 and ran a two-year campaign, which succeeded in 1994, to end the exclusion of most non-family shareholders from voting rights.

However, Ms Griffith said yesterday that the two sides had maintained a dialogue "in a rather civilised way" since Mr Myerson had invested in Liberty.

She said: "It's fair to say that the family would not have initiated the process of enfranchisement. But that's now water under the bridge."

The two groups are unhappy with the performance of Liberty, which has a flagship store on Regent Street, London, and is famous for its distinctive printed fabrics. They are also unhappy with the amount of information provided to shareholders.

Mr Myerson and Ms Griffith met Mr Cassidy on Friday to suggest their election to the board but were rebuffed. They said yesterday they would be unable to work with him because of his past opposition to shareholder representation.

Mr Myerson said yesterday that Liberty's £69.2m market capitalisation represented little more than his £55m-£60m estimate of the value of the group's main asset, the Regent Street store.

Mr Myerson and Ms Griffith would pay particular attention to Liberty's development plans and to the £40m investment programme at the main store.

Buys lift Softbank

By Paul Abrahams, Tokyo

Softbank, the Japanese software wholesaler and magazine publisher, posted half-year net earnings up 33 per cent from Y4.5bn to Y6bn ($49.5m). However, operating profits fell 18 per cent from Y2.44bn to Y2bn on sales up 13 per cent from Y86.8bn to Y98.5bn for the six months to the end of September. Recurring profits improved 38 per cent from Y8.4bn to Y11.7bn.

A substantial proportion of net earnings and turnover increases was due to acquisitions, but no indication was given of the performance of the underlying businesses. Earnings per share actually fell from Y97.81 to Y59.16, following its huge share issue to pay for acquisitions.

Net profits of Y12m were forecast for the full year, compared with Y10.55bn. Earnings per share would fall from Y144.03 to Y117.16. Recurring profits would be Y25bn against Y23.41bn on sales up 6.7 per cent to Y220bn. The dividend was predicted to be held at Y20.

Granada Group considers sale of GSkyB minority holding

By John Gapper, Media Editor

Granada Group, the leisure and media group, is considering the sale of a minority stake in its Granada Sky Broadcasting pay-television subsidiary in an effort to improve the City's perception of the lossmaking venture.

Granada currently owns 60 per cent of GSkyB, with the rest of the equity held by British Sky Broadcasting, the satellite broadcaster.

GSkyB both re-packages Granada productions, and commissions programmes for the pay TV market.

Granada is considering selling a 20 per cent stake in GSkyB – which has so far failed to attract strong viewing figures and is losing about £3.5m a year – because it believes the venture is being consistently undervalued by analysts.

Although Granada has not yet reached a firm estimate of the value of GSkyB, it wants to crystallise its value in a similar manner to a deal in March in which a value of £370m was put on two satellite channels carrying BBC programmes.

The channels – UK Gold and UK Living – will form part of a package called UK TV, which is being launched this week as a joint venture with Flextech, the pay-television company controlled by TeleCommunications Inc of the US.

UK Gold, a channel using the programme libraries of the BBC and Thames Television, which is owned by Pearson, the owner of the Financial Times, is likely to be more valuable than the Granada Plus equivalent operated by GSkyB.

However, Granada wants to capitalise on its strength as a leading production company for the ITV network.

Apart from the Granada Plus channel, GSkyB also operated Granada Good Life, a lifestyle channel split into several segments.

Granada is likely to seek a strategic investor to take the minority interest in GSkyB, although it could also allow BSkyB to increase its stake.

The purchase of a stake would provide a clear value for the channel for the first time.

The move comes as television companies are showing greater interest in producing programmes to sell to a growing number of pay-television channels.

These will rise dramatically next year with the introduction of digital television.

Smart plant opens amid doubts

By Haig Simonian, Motor Industry Correspondent

Europe's most innovative new car plant will be opened by the leaders of France and Germany today amid continuing doubts about the demand for its products.

President Jacques Chirac of France and Chancellor Helmut Kohl of Germany are due to head about 1,000 guests at the opening ceremony for the new Micro Compact Car plant at Hambach in eastern France.

The factory, operated by the joint venture between Mercedes-Benz and Switzerland's SMH watches group, best known for the Swatch, will build the Smart, an innovative two-seater car just 2.5m long.

Output of Smarts, principally designed for urban use, is scheduled to reach 200,000 units a year at full swing. Sales of the vehicle will start in continental Europe in March with prices between DM16,000 (£5,634) and DM21,000 (£7,394).

The Smart, which is powered by a high-technology 660cc petrol engine coupled to a six-speed automatic gearbox, is expected to offer unprecedented fuel economy. A later turbo-diesel version should be even more frugal, while the range will eventually be completed with a hybrid variant using a tiny electric motor on each wheel.

Production methods at the plant, which employs more than 2,000 people and is located just inside the French border near the German city of Saarbrücken, are almost as revolutionary. MCC has appointed a handful of key suppliers – called system partners – to pre-assemble important sections of the vehicle adjacent to the production line before final assembly by MCC employees.

This has helped reduce the final assembly time for the Smart to about five hours. In an equally unusual move for the motor industry, the system partners have agreed to share some of the risk, with payments linked to production levels for the vehicle.

Although Mercedes-Benz and SMH said they were confident about demand for the Smart, analysts have raised doubts about whether the public will respond as favourably, in spite of rising concerns about environmental issues and urban congestion, which the vehicle is designed to address.

Nicholas Hayek, chairman of SMH and the man behind the original concept for a tiny "Swatchmobile", remains confident. Mr Hayek argued in an interview that European and US carmakers have to move into such niches to avoid being overtaken by foreign competitors.

See Monday profile

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LEGAL NOTICES

Finmeccanica plans L5,000bn refinancing

By James Blitz in Rome

Finmeccanica, Italy's state-controlled industrial conglomerate, is to launch a L5,000bn (£2.88bn) refinancing operation in an attempt to wipe clean the losses which it has reported for the first six months of this year.

In a bid to improve the performance of its diverse network of businesses in the fields of aerospace, defence and energy, Finmeccanica's board has agreed an "industrial organisation plan" which it hopes to implement over the next 18 months.

At the heart of the plan is a decision by Iri, the state holding company which has a 63.4 per cent stake in Finmeccanica, to participate in a L2,000bn recapitalisation of the company alongside private sector institutions.

Gian Maria Gros Pietro, president of Iri, is to travel to Brussels next month to request permission for Iri to go ahead with the operation under European Union competition rules.

Mr Gros Pietro will say that Iri seeks to inject some L1,200bn into Finmeccanica. He is hopeful that he will receive the go-ahead for the move from the EU on the grounds that Iri's cash injection is accompanied by a similar move from private sector funds.

Finmeccanica's board has also decided to conduct an immediate sale of shareholdings in a range of companies in which it holds a majority stake – the most significant of which is Elsag Bailey, a leading international producer of industrial process automation and services.

Finmeccanica believes that the disposal of Elsag Bailey and a range of allied companies will help raise some L3,000bn through the sale of shares and the deconsolidation of debt. The sale of Elsag Bailey is expected to be handled by Cofiri, the state holding company's merchant bank division.

Finmeccanica's board decided to implement the refinsncing plan after recently reporting losses for the first six months of this year of L1,950bn. The plan has been criticised by some independent analysts who think it reflects the wishes of leading figures in the company to keep control of a group of businesses that are too diverse.

"The aim of this move is to allow Finmeccanica to go on controlling companies and joint ventures that do not fit together under one roof," said one analyst.

In a further development of Finmeccanica's plans, Mr Gros Pietro will this week travel to South Korea, where he is expected to try to make progress on firming up a joint venture between Daewoo and Ansaldo, the subsidiary that produces thermoelectric and hydro power stations.

In recent days, Mr Gros Pietro has said negotiations with Daewoo are at an "advanced stage," although Siemens has also admitted to an interest in forming a joint venture with Ansaldo.

Vitro and Alfa receive third-quarter boost

By Leslie Crawford in Mexico City

Mexico's strong economic recovery boosted third-quarter sales and profits for Vitro, the glass manufacturer, and Alfa, the chemicals, steel and food group, two of the country's largest conglomerates based in the northern city of Monterrey.

The turnaround at Vitro has been dramatic. After writing off its $1bn investment in Anchor Glass, its loss-making US subsidiary, in September 1996, Vitro reported a net income of 991m pesos ($128m) in the third quarter of 1997, against a 3.4bn peso loss in the same period last year.

Earlier this month, Vitro announced it was shedding another dead weight, the synthetic fibres manufacturer Cydsa, a company plagued by management problems and some of the lowest margins in the petrochemical business. The sale of Vitro's 49.99 per cent stake in Cydsa to the González-Sada family of Monterrey is expected to raise between $230m and $260m. Vitro says it will use the proceeds to retire expensive debt and build up a cash reserve to expand into new businesses next year.

Vitro has already taken advantage of Mexico's more benign credit environment to settle debt and cut financing costs. In the year to September, Vitro's total debt fell 20 per cent to 13bn pesos, or 2.8 times cash flow. Interest expenses also fell 46 per cent to 599m pesos in the third quarter of 1997, thanks to lower peso interest rates, a shift in the debt mix from pesos to dollars, and the retirement of peso debts equivalent to $232m.

While welcoming the disposal of unprofitable assets and Vitro's improved debt profile, analysts expressed disappointment in the company's sluggisb growth in operating income and cash flow. Operating income for the third quarter totalled 840m pesos, a 4.8 per cent increase over 1996, while Vitro's cash flow, at 1.2bn pesos, was only 1.9 per cent higher than a year ago.

"Investors will be happier when Vitro announces what its growth plans are for 1998 and beyond," said Bond Snodgrass, an analyst at SBC Warburg in Mexico City. "If the company retains its current business mix, growth will remain flat."

The challenge for Alfa during the third quarter was the growing appreciation of the peso, which dented margins on its steel and petrochemical exports, with volume and productivity gains.

Alfa's sales in the third quarter reached $1bn, compared with $815m in the same quarter of 1996. The company said domestic sales were showing a strong recovery, up 2 per cent over the previous quarter at 6bn pesos. Exports, at $240m, accounted for almost one-quarter of total sales.

Alfa's third-quarter operating profit totalled $161m, 17.5 per cent higher than in 1996. The company said real appreciation of the peso, higher energy costs and wage increases were putting pressure on operating margins, which dipped to 16 per cent in third quarter compared with 17.4 per cent in second quarter. Nevertheless, third-quarter net income, at 1.1bn pesos rose 10.4 per cent.

UK analysts rank Ericsson top of league

By Tim Burt in Stockholm

Ericsson, the Swedish telecommunications group which reported a sharp rise in third-quarter profits last week, has emerged as the most highly regarded company in Scandinavia, according to a new survey of UK financial analysts.

A poll of almost 100 London-based analysts found that Ericsson, one of the world's largest manufacturers of mobile phones, was the best performer among 60 leading companies in the Nordic region.

"Ericsson comes ont the best both in the assessment of the company's future, and the way it handles information," saidresearch group Nordic Image, which conducted the survey. The inaugural survey of City attitudes to Nordic companies ranked Hennes & Mauritz, the fashion retailer, behind Ericsson in the league of companies with the brightest prospects – ahead of Nokia of Finland, and engineering groups ABB and Sandvik.

Last week, several analysts hailed Ericsson as the region's star performer after it saw profits more than double from SKr2.03bn to a record SKr4.23bn ($556.5m) in the three months to September 30.

Among the group's with the worst prospects were Scandivaian Airlines System, its Norwegian rival Braathens SAFE and Nycomed, the Norwegian healthcare group.

SAS, however, recently confounded analysts by reporting a better than expected return to profit in the second quarter, with pretax gains of SKr867m, compared with losses of Skr269m in the previous period.

In a separate ranking of confidence in top management, Hennes & Mauritz, ABB and Ericsson again figured in the top echelon, while Kvaerner, the Anglo-Norwegian shipbuilding and engineering group, came bottom – just ahead of Nycomed.

Companies controlled or with large stakes held by the Wallenberg industrial empire were ranked relatively highly in the survey, with the exception of SKF, the bearings manufacturer, and Electrolux, the white goods manufacturer.

SKF and Electrolux – both undergoing restructuring – came thirty-fifth and forty-seventh respectively in the survey of companies with the best future.

Investor and Incentive, the main Wallenberg investment and industrial vehicles, were among the top 20 in terms of future prospects and in the top 10 for management confidence.

Nordic Image AB, Box 14 287, 630 14 Eskiltuna, Sweden. Tel: 46 1613 6578

INTERNATIONAL NEWS DIGEST

$1.6bn write-off puts Boeing in red

Boeing of the US has announced a net loss of $696m for the third quarter after a $1.6bn pre-tax write-off to take account of production bottlenecks and late delivery costs. The group, the world's biggest aircraft maker, warned there might be further write-offs during the fourth quarter after its decision on the future of the McDonnell Douglas civil aircraft programme. Boeing acquired McDonnell Douglas earlier this year.

Philip Condit, chairman, said he expected to announce Boeing's decision on the future of the McDonnell Douglas aircraft early next month.

The third-quarter loss compared with a net profit of $466m in the same period last year. The loss per share was 72 cents, compared with earnings of 48 cents last time. Sales were $11.4bn, against $9bn.

Michael Skapinker, Aerospace Correspondent

■ MEXICO

Strong peso lifts Cemex

Cemex, the world's third largest cement producer, yesterday reported a third quarter net profit of 1.9bn pesos ($243m), a 45 per cent real increase in peso terms over the same period in 1996, and, owing to the appreciation of the peso, a 55 per cent increase in dollar terms.

Net sales in the third quarter totalled 7.8bn pesos, an 11 per cent increase in peso terms. Operating income was 10 per cent higher in peso terms in the third quarter at 1.87bn pesos. Cemex said cash flow increased 9 per cent in the third quarter to 2.49bn pesos, while financial costs fell 27 per cent to 976m pesos. *Leslie Crawford, Mexico City*

■ HOTELS

Starwood Lodging beats forecasts

Starwood Lodging, the US hotels group that last week made a $9.8bn agreed bid for the ITT hotels and casino group, yesterday reported better-than-expected funds from operations of $48.8m for the third quarter, up 93 per cent from $25.3m a year earlier.

Starwood Lodging's structure comprises a hotel-owning real estate investment trust, or REIT, and a hotel management and operating company. The REIT side of the business pays no tax, an advantage the company put to use in the third quarter by acquiring equity interests in 20 properties with 5,700 rooms for $720m. The figures did not include any contributions from Westin Hotels & Resorts, which Starwood agreed to acquire during the quarter, or from ITT, which is not expected to be acquired until the first quarter of next year. *Richard Tomkins, New York*

■ RETAILING

Promodès poised for Portugal buy

Promodès, the French retailer engaged in a hostile bid for its rival Casino, is adding to its Portuguese activities. The company said its DIA discount subsidiary was poised to buy Companhia Portuguesa de Lojas de Desconto, a so-called "maxi-discounter". It said a memorandum of understanding had just been signed for the sale.

Lojas de Desconto has a network of 125 Minipreço outlets mainly situated in the Lisbon and Porto regions. The 1996 turnover of this network totalled Esc38.8bn.

David Owen, Paris

■ CORRECTION

MCI

An article in Friday's Financial Times on MCI's third-quarter earnings reported that both the company's long-distance calling revenues and its overall revenues were down slightly during the latest quarter. These comparisons were with the previous three months: compared with the same period in 1996, long-distance revenues were 1.6 per cent higher, and overall revenues 2.9 per cent higher.

United Utilities set to make executive decision

By Jane Martinson

The fate of Sir Desmond Pitcher, chairman of United Utilities, could be decided tomorrow when a new non-executive chairman is presented to the board of the multi-utility.

Institutional investors, which have been waiting for news of a replacement for two months, are likely to welcome the development. One said that he had expected to hear "something in a week or so'a time" but felt increasingly impatient at the perceived delay.

There has been friction between shareholders and the board since the summer as an influential group of investors pushed for a replacement to Sir Desmond by the end of this year.

The company made an enigmatic statement after a special board meeting in August when it promised an "immediate announcement" about the succession issue some time in the autumn.

It subsequently indicated that an announcement could be expected at the interim results at the end of November. "They are redefining the meaning of autumn," said one disgruntled investor.

However, it is unclear whether the board will accept the chosen candidate. Sir Desmond, who is not due to retire until 2000 when he is 65, is set to attend tomorrow's regular board meeting.

"It's not agreed yet," said one company insider. "A big problem could arise over the transition timetable."

Shareholders want a relatively short handover period. They feel that a new appointment should have time to prepare the company for the newly liberalised electricity market next year and for the next regulatory price review in the water industry the year after.

Sir Desmond, who was unavailable for comment last week, is a veteran of many boardroom battles, not just at United. He resisted pressure to clarify his executive role last year when shareholders publicly objected to the size and complexity of pay packages awarded to the executive team. Brian Staples was ousted as chief executive at the end of July.

It is felt unlikely that the new non-executive chairman will be Sir Peter Middleton, the non-executive director who met many institutional investors to hear complaints about Sir Desmond's role.

The chosen person is expected to meet the executive directors late today although one executive said he had not been told of any meeting on Friday.

Lex, Page 20

F&C underlines global ambition

By Jane Martinson, Investment Correspondent

Foreign & Colonial Management is considering further acquisitions as it bids to become a leading global fund manager.

The investment group, which on Friday appointed Robert Jenkins as chief executive, is keen to expand in continental Europe and the US.

James Ogilvy, who moves from chief executive to chairman, said the group was keen to increase organic business and to "digest ESN", one of the UK's biggest pension funds which F&C bought a year ago. However, he said: "If we are going to get to the size necessary [to compete globally] then acquisitions are most likely on the cards."

F&C, which began as an investment trust for mainly retail clients and is now majority owned by Germany's Hypo-Bank, currently has £29bn under management. The ESN Pension Management Group, the electricity industry pension scheme which the group bought for £53m, contributes £15.5bn of that sum. However, the scheme's trustees will be free to appoint new managers from next spring.

Mr Jenkins is currently managing director and chief operating officer of Credit Suisse Asset Management, which has about $38bn (£23.4bn) under management. He previously worked for Citicorp, the US bank.

Peabody in £77m Turkish investment

By Virginia Marsh

A US-Turkish consortium including Peabody, part of the UK's Energy Group, has won a tender to acquire a power plant in Turkey for $125m (£77.1m).

The consortium, in which Peabody has a 25 per cent stake, plans to invest a further $70m-$100m to modernise the 450MW Kangal coal-fired plant which is being sold as part of Turkey's privatisation drive.

The investment, which is subject to further negotiation, would be Peabody's first generation project in Europe. The company is the world's largest private coal producer.

The consortium is believed to have been the only international group bidding for Kangal which is in a remote part of eastern Turkey. However, it is adjacent to a mine owned by Koc Holding, Turkey's largest conglomerate and the main participant in the consortium with a 50 per cent share.

The consortium – whose third partner is NRG a subsidiary of Northern States Power Company of the US – has also bid for two power distribution companies and a 600MW power plant.

The distribution companies cover Istanbul and the Versa-Yelova area. Under the tender terms, the consortium will not be allowed to buy both.

The results of the three remaining bids are not expected until early next year.

Yesterday's announcement follows the award early this week of contracts to three international consortia contracts to build six big power stations with capacity totalling 5,200MW.

This was the first step in a privately financed expansion programme for the country's energy industry that will require investment of $4bn a year for the next decade to help meet accelerating demand for electricity.

However, lawyers have warned that existing legislation imposes too many state controls, making the projects difficult to finance.

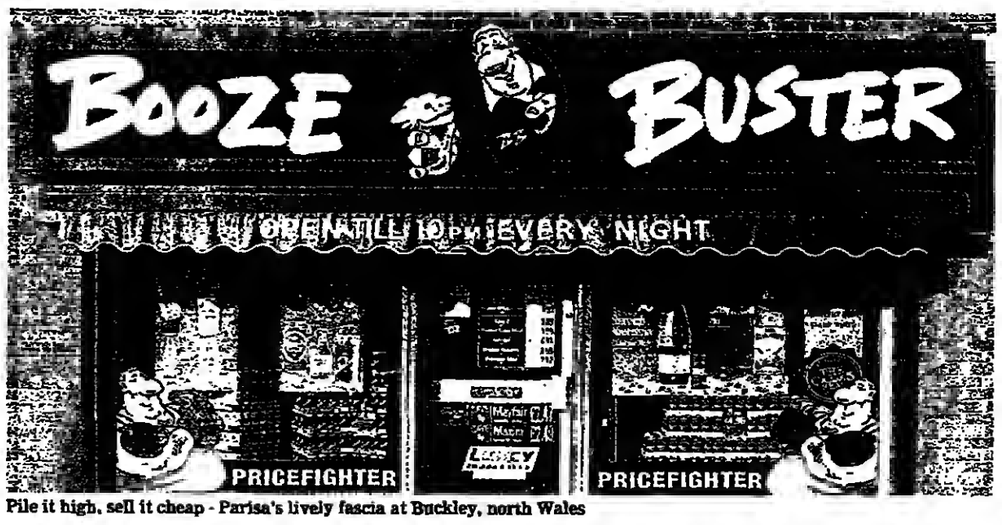
Parisa lays down cut-price challenge

By John Willman, Consumer Industries Editor

Britain's third-largest off-licence chain is to launch a cut-price challenge to the supermarket groups which have taken more than half the alcoholic drinks market in recent years.

Parisa, which owns the 460 off-licences sold in August by Greenalls Group, has already re-opened 12 as Booze Buster shops, undercutting supermarket prices by up to 30 per cent. It plans to convert a further 50 and extend the concept more widely by franchising independent off-licences.

Nader Haghighi, managing director, said he had the backing of most of the large drinks companies and brewers, which are keen to redress the balance in the off-sales market. "They are fed up of supplying the supermarkets at the discounts they demand."



Pile it high, sell it cheap - Parisa's lively fascia at Buckley, north Wales

Iranian-born Mr Haghighi, 38, became managing director of Greenalls' off-licence division three years ago after overbauling the Thresher chain owned by Whitbread. In August, he bought the division from the Warrington-based pub group for £56m with the backing of CVC Capital Partners and NatWest Ventures.

He said at the time he saw opportunities for consolidation in the sector to fend off the supermarkets, and expressed an interest in acquiring another chain.

The Booze Buster launch is an effort to revive the community off-licence with a no-frills format which he describes as "pile it high, sell it cheap".

The stores will sell branded spirits such as Teacher's whisky and Gordon's gin at £9.99 a bottle – between £1.50 and £2 cheaper than the supermarkets. Carling Black Label lager will cost 59p a can – a 28p discount. "The supermarkets have had it their own way too long," said Mr Haghighi. "We have the buying power to get the best price and pass it on to customers."

"The supermarkets have picked off the big retailing sectors one by one – petrol, newsagents, florists, butchers, fishmongers and off-licences. We are saying enough is enough and that 1997 is the year when balance will be restored to the market."

Mr Haghighi said he had already been approached by some 250 independent operators keen to adopt the franchise.

Parisa already includes Wine Cellar, an upmarket chain where customers can taste the wines. Mr Haghighi plans to develop other retailing concepts to focus on particular consumer groups.

Cantonese cuisine to face Waitrose's take-away test

By Peggy Hollinger

Waitrose may soon be selling Chinese ready meals to Hong Kong consumers following a business venture with Park and Shop, one of the region's largest supermarket chains.

The UK food retailer, part of the John Lewis department store group, has begun exporting its own-brand chilled dinners to Hong Kong in an attempt to build an international export arm for its south of England-based supermarkets business.

Its move comes as other British retailers explore expansion opportunities in Asia. Two months ago Tesco, the UK's largest supermarket chain, moved a senior manager to Hong Kong to research opportunities.

It is thought that the group is particularly interested in the rapid development of hypermarkets in Asia, led by European operators such as Carrefour and Makro. In Malaysia, for example, supercentres and hypermarkets are estimated to be increasing sales by at least 15-20 per cent a year.

Analysts said the export of own-label product was a useful way to build a brand presence in the region. "The Far East is a very big opportunity for UK food operators," said one. "You have huge centres of population all concentrated in central areas, with under-developed food markets."

Waitrose said, however, it had no plans to expand in the region. It was merely flying out a very narrow range of about five chilled meals for sale in the Park and Shop supermarkets. The company said the export trial began about a month ago and it was too soon to say whether the range would be expanded. So far, however, the products had proved popular, in particular the prepared Italian meals.

Marks and Spencer, which sells packaged foods in its Hong Kong stores, tried a similar venture about nine years ago but the project was soon abandoned. The company said it had proved too expensive to fly the chilled foods out to Hong Kong, given the low sales.

"We withdrew because the cost of selling it on the consumer would have been so high that it was not a viable proposition," said Tracey Nelson of M&S.

Moreover, demand for convenience products was not as developed as in the West. "In a society which still eats and cooks predominately Chinese," said Ms Nelson, "and with a high dining out mentality [among middle to upper class consumers] the size of the market is as yet still comparatively small."

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / Peter Martin

A need for timing - and patience

At what point will it be time to start buying the battered markets of south-east Asia? The recent history of emerging market crises, after all, points to tempting opportunities once the worst of the damage is past. Anyone buying Mexican stocks at the trough of the market in early 1995 has since seen them more than double in dollar terms.

Will a similar effect be at work in Asia? After last week's fresh bout of turmoil, most of the region's currencies are clearly below the level suggested by analysts' calculations of "fair value".

Only Hong Kong, whose unique political status and commercial role require a stout defence of the dollar peg, still suffers from the overvaluation that until recently was widespread across the region.

As the chart shows, equity markets of the worst-affected countries are down by 40 per cent or more in local currency terms since the beginning of the year. Add in currency depreciation and the stock markets have more than halved from a foreign investor's point of view. At some point, these markets will surely start to look like bargains.

That moment is always hard to pick. There are sound reasons for thinking that Mexico's astonishingly speedy recovery since 1995 is the exception rather than the rule. Several of the factors at work in Mexico's case do not apply with the same force in south-east Asia.

The first of these factors is the political will for change. Mexico's elite was grimly determined to bring about economic recovery, and willing to pay a high price in lost output and political unpopularity in order to do so. It is far from clear that the same sense of determination has yet taken hold in south-east Asia.

Even those countries, such as Thailand, which have drawn up sweeping plans for reform have yet to demonstrate a real appetite for their ruthless implementation.

A second difference between Mexico and south-east Asia is the external environment. Mexico's huge neighbour, the US, was growing rapidly during the period of recovery, creating healthy demand for newly-competitive Mexican exports. Global interest rates were falling, permitting quick refinancing of outstanding debt on favourable terms.

The US is also an important export market for south-east Asia, and its growth continues. But there the similarities end. Japan is a much more important market for south-east Asian exporters than for Mexico - and its economy is still mired in recession. And the global interest rate environment, although still not threatening, offers less in the way of immediate opportunities than in 1995-96.

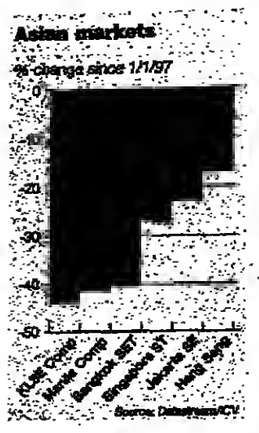
Perhaps the biggest difference between the two crises lies in the developments that preceded them. The south-east Asian countries had pegged their currencies against the dollar for longer than Mexico, and the assumption that the peg would continue had become much more deeply ingrained, leading to high levels of unhedged dollar indebtedness. The regional property boom, fuelled by overvaluation and rapid economic growth, was also more intense.

This means that companies and banks in the region are heavily exposed to the consequences of devaluation and a property price collapse, in ways that are still difficult to quantify. Indeed, many of the companies concerned may not yet fully appreciate the damage.

Against this background of gloom, there are a few positive points. The underlying dynamism of the south-east Asian economies is high, and the competitiveness of their manufactured exports has been transformed by devaluation. Reform policies, although likely to be patchily implemented, are none the less on the way. Closed-end country funds, selling at big discounts to net asset value, offer a cushion of protection to investors seeking exposure to the region.

The balance of these arguments suggests that the bottom in the region's markets, although not yet reached, may not be far away. A final flurry of despair is likely to accompany the revelation of just how badly the big banks and companies have been affected. Thereafter, the worst will be over and recovery can begin. To that extent, the Mexican parallel is relevant.

But the speed of Mexico's restoration to favour may not be matched in south-east Asia's case. It goes without saying that investors who decide to increase exposure to the region over the next few months will require strong nerves. But they may also need a more unusual quality among investors: patience.



Total return in local currency to 23/10/97

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.11	0.01	0.06	0.07	0.13	0.14
Month	0.47	0.05	0.27	0.28	0.54	0.59
Year	5.84	0.63	3.22	3.63	7.38	8.44
Bonds 3-5 year						
Week	0.31	0.27	-0.02	0.02	-0.17	-0.11
Month	0.62	0.46	-1.06	-1.11	-0.02	0.86
Year	7.57	4.15	3.75	3.78	13.13	7.76
Bonds 7-10 year						
Week	0.45	0.72	-0.18	-0.07	-0.36	-0.20
Month	0.77	1.70	-0.81	-1.22	0.56	1.18
Year	9.16	9.51	8.80	7.88	22.71	12.79
Equities						
Week	-0.4	-2.9	-3.2	-4.5	-2.1	-5.2
Month	0.2	-4.5	-2.9	-4.1	-1.2	-0.1
Year	37.4	-12.0	44.7	34.3	85.8	26.1

Source: Cash & Bonds - Lehman Brothers. Equities-G FTSE/Intl Index Unit. The FTSE/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co., and Standard & Poor's.

COMPANY RESULTS DUE By Ourvoje Bowe, AFX News

Axa-UAP scanned for recovery signs

Axa-UAP and Ste Centrale du GAN's first half results will be closely watched by analysts for signs of sustained recovery in the life insurance business within France. In the 1998 budget the tax break on revenues from life insurance policies is to end, intensifying pressures on an already increasingly competitive market.

Analysts said Axa-UAP will on Thursday report a first-half net profit in the range of FFr3.02bn to FFr4bn ($66.4m) while GAN said last month its results for the six months to June, to be announced tomorrow, will be close to break-even. Axa-UAP is reporting interim figures for the first time following the merger of the two component companies, which for accounting purposes took effect from January. Analysts see Axa-UAP's full-year net profit in the FFr6.3bn-FFr7.4bn range. UAP's life business in France has been a problem area, noted one Paris-based analyst.

GAN said that its first half results will include charges of about FFr500m for its UK life business, with a further FFr500m for "exceptional provisioning," understood to be related to an off-balance sheet loan.

This compares with a loss of FFr965m in the first half of 1996. *AFX, Paris*

■ Akzo Nobel will report on Thursday third-quarter net profit of between Fl 376m and Fl 415m ($210m), up from Fl 328m a year earlier, according to analysts' estimates.

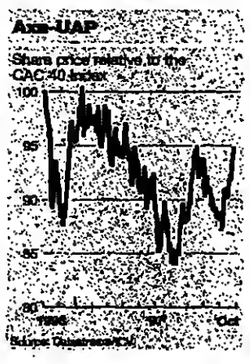
Pieter van Gelder, at Delta Lloyd, is forecasting net profit of Fl 376m with the pharmaceuticals and chemicals activities set to make the strongest contributions to profit growth.

Irie analyst Marc van Geest expects third-quarter net profit of Fl 415m. He said pharmaceuticals sales will show strong growth for the Remeron anti-depressant, especially in the US where the product was introduced at the end of 1996. Continuing restructuring in the coatings businesses relating to the merger of Akzo with Nobel will continue to affect results positively. *AFX, Amsterdam*

■ Générale des Eaux on Wednesday is expected to report first-half net profit of between FFr1.7bn and FFr3bn ($502.2m), up from FFr808m, according to analysts' forecasts. Much of the increase will come from exceptional gains, but the figures will also highlight improvements in the group's ongoing business.

An analyst at a French bank said he was forecasting net profit of FFr3bn, but said limited significance should be attached to the net figure. "The net profit figure will be muddied by a lot of positive exceptional items," he said.

Exceptionals could total FFr2.9bn, but the figure published will be at the company's discretion. Net profit on ordinary activities is likely to be about FFr1.1bn, compared with FFr100m. *AFX, Paris*



■ BAT Industries, which is merging its financial services arm with Zurich, the Swiss insurer, is expected to report on Wednesday a fall in nine-month pre-tax profits from £3.02bn to £1.76bn ($2.85bn). In addition to US tobacco settlement provisions, the third quarter has been damped by an additional £78m provision for Allied Dunbar for sorting out its pensions mis-selling cases.

■ J Sainsbury is expected to report interim pre-tax profits of about £400m ($648m) on Wednesday, up from £393m last time. But the market will be, as ever, more interested to see if the UK's once-largest food retailer is closing the sales gap on its rival Tesco. Excluding new space, sales are forecast to rise by 4 per cent, still some way behind Tesco's 6 per cent. Nevertheless, this could be regarded as a good performance, given last year's flat volumes at the interim stage.

■ Pilkington, the glassmaker, is expected on Wednesday to unveil news on job cuts as part of a restructuring aimed at bringing the company's cost base into line with international competitors such as St Gobain, PPG and Glavberbel. Mike Bets, at Goldman Sachs, reckons the company needs to reduce its labour costs by £120m, which would lead to a 4 per cent lift in operating margins. These have averaged 8.4 per cent over the past 10 years. Analysts now believe that job losses will exceed the 2,000 announced by Paolo Scaroni, Pilkington's new chief executive, in June. Interim pre-tax profits are expected to be about £62m ($100.4m).

■ The media will have its first opportunity on Thursday to quiz British Telecommunications' top executives since the takeover battle for MCI entered its most recent phase. Fresh from haggling with GTE and WorldCom, Sir Peter Bonfield, chief executive, is expected to announce profits before tax of £640m-£650m ($1.05bn) for the half year. The figure will be struck after charges totalling about £250m.

■ Danka Business Systems is expected to report on Thursday interim pre-tax profits of £42.5m ($68.9m), giving earnings per share of 13p, as analysts watch for more news on the integration of last year's £438m acquisition of Eastman Kodak's photocopying business.

INTERNATIONAL EQUITIES By Vanessa Bowe

On the look out for HK fall-out

The flotations last week of France Telecom and China Telecom (Hong Kong) offered a sharp contrast in fortunes.

The first was a roaring success. France Telecom shares, offered to institutional buyers in the privatisation at FFr187 ($31.75) each, surged to FFr215 when trading started on Monday. Fund managers, whose orders had been only partly filled because of the volume of French retail demand, rushed to buy.

Although the price later fell back, investors had secured a handsome opening day premium. Retail investors, who were issued shares at FFr182 each, did especially well. Some analysts said the issue was arguably underpriced, but it was nonetheless a coup for the company and the government.

The second could hardly have picked a worse day to start trading. On Thursday the Hong Kong stock market fell by 10.4 per cent, and it was into this deluge that CTHK made its entry. The shares had been listed in New York the previous day and had fallen sharply because of turmoil on the Hong Kong exchange.

Launched at an institutional price of HK$11.80 ($1.52) and a retail price of HK$11.68, the shares dropped to HK$10.55 on their first day's trading, with heavy institutional selling, especially from the US, reported. The fall was in line with the overall market but its impact on investors, especially retail holders in Hong Kong, was greater.

Many had bought the shares on the grey market at prices above the final issue level and before Hong Kong's share and currency crisis became acute.

Ironically, it was the strength of that early interest that encouraged the issue's global co-ordinators, Goldman Sachs and China International Capital Corporation, to raise the pricing range 10 days before the deluge. From an original range of HK$7.75-HK$10, they increased it to HK$9.50-HK$12.60.

If the range had not been raised, investors might still have had an opening day premium. In the event, they did get a second day premium thanks to heavy support for the shares in the market from underwriters, as the broader market recovered. The shares ended on Friday at HK$12.25.

Will the Hong Kong turmoil have any impact on the big international offerings still pending? Analysts and bankers said any damage would be minimal, but officials at the Italian Treasury must be relieved that the mammoth Telecom Italia issue has been closed.

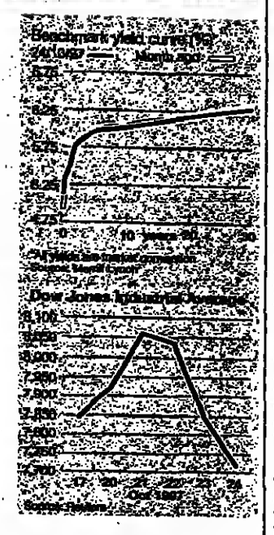
However, there is likely to be more concern in Australia, where the government is in the middle of privatising Telstra, the national telecoms operator. International roadshows will get under way in the next few days. Domestic interest is heavy and at least two-thirds of the issue could end up in local hands.

Bankers familiar with the Telstra sale said that because it was "first and foremost a domestic event", there should be few worries on the international front. European and US investors had also shown good early interest, they said.

Nor is the Hong Kong issue likely to cause any immediate change to plans by the Hungarian government, and Deutsche Telekom and Ameritech, to sell a stake in Matav, Hungary's national operator, next month. That offering, which at $770m-$1.2bn will be the biggest from the region, is the last of the big European state sell-offs due in 1997.

MARKETS: This Week

WALL STREET By Richard Waters



With the Asian currency crisis still in full swing – and its ripples finally making their way to Wall Street in the form of a 4 per cent fall in the Dow Jones Industrial Average and a bond market rally late last week – the US financial markets are likely to open in jittery mood today. Provided this latest flare-up in international markets does not take hold more widely, though, the effects may end up being mildly positive for US stock and bond prices.

All eyes will be on Alan Greenspan, who is due to appear before the joint economic committee of Congress on Wednesday. The Federal Reserve chairman is expected to maintain his earlier hawkish tone, pointing to an eventual interest rate increase. The Asian debacle may affect the timing of such a move: most analysts expect its effect on the US economy to be mildly deflationary, as the region shrinks as a market for American goods and Asian exporters become more competitive.

Mr Greenspan's attention will remain largely on the domestic economy, though. Here, too, Wall Street expects generally positive news this week. The employment cost index, due on Tuesday is expected to have risen 0.8 per cent in the third quarter, the same level as the previous quarter. That would suggest that the cost pressures that Mr Greenspan has warned of remain in check.

An expected 0.5 per cent fall in September durable goods orders, to be reported Wednesday, would also be positive for bonds – though Friday's advance report on third quarter GDP is likely to point to a continuation of economic growth above the long-term sustainable rate.

LONDON By Steve Thompson

There will be precious little respite for the London equity market's hard pressed traders this week.

Having survived a week of upheaval in the way the top 100 shares are traded, plus a big shift in perceptions of the government's approach to Emu and to cap it all a big sell-off triggered by Hong Kong's heavy losses, there are plenty of potentially market-moving events this week.

First, global markets will have to negotiate what could be another tricky week in Far Eastern markets; another slide in that region could see panic return to the UK equities market.

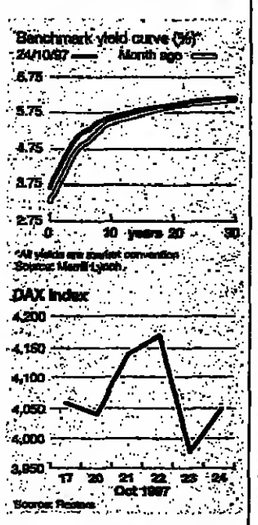
In a thin week for domestic economic news, the market will be keenly waiting to hear what Gordon Brown, the chancellor, says about the government's attitude to Emu.

That apart, it will be news from overseas, most notably the US, that will provide the driving forces for London shares. Most significant of the US events is the testimony to the US Congress's joint Economic Committee by Alan Greenspan, chairman of the US Federal Reserve, that will be carefully scrutinised for clues as to whether the Fed might sanction a rise in US interest rates after its next FOMC meeting, scheduled for November 12.

Dealers may also begin to position themselves for the next meeting of the UK's Monetary Policy Committee, due on Thursday week, which may well bring a further rate rise.

On the companies front, third-quarter numbers from BAT Industries are expected on Wednesday along with interims from J Sainsbury. Anglian Weter kicks off the utilities' interim reporting season on Thursday.

FRANKFURT By Graham Bowley



Frankfurt's stock market recovered its poise on Friday, after the sharp falls on Thursday induced by the sell-off in Hong Kong.

In late electronic trading, the DAX index of the biggest company shares was up about 2 per cent at about 4,050. Along with less turbulent Asian markets, the DAX received a boost from German price data showing subdued inflationary pressures.

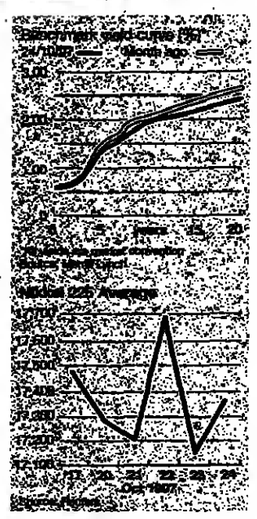
Tomorrow, the six German research institutes will give their verdict on how the economic recovery is progressing. This will be important following the Bundesbank's decision this month to raise the short-term repo rate, by more and earlier than most analysts had expected.

Data last week confirmed that economic growth is gaining momentum. The manufacturing sector in particular is growing strongly, benefiting in part from surging overseas demand. However, despite increased activity the signs that inflationary pressures remain relatively tame mean that most analysts do not expect another move upwards in German interest rates for some time yet.

Economic data due this week includes plant and machinery orders. Orders are expected to have risen robustly again in September but less than the strong rise seen in August.

On Wednesday, Deutsche Bank will present a report on its business in the first nine months of the year. Also on Wednesday, Audi, the luxury division of carmaker Volkswagen, will give an overview of its business year. Rheinmetall, Bewag and Dresdner Bank are all holding press conferences during the week.

TOKYO By Bethan Hutton



Both stock and bond markets will be watching developments in south-east Asia very closely this week: Thursday's plunge in the Hang Seng index sent the Nikkei 225 tumbling 3 per cent.

The main Nikkei index recovered somewhat on Friday, but at one stage dipped below 17,000, which rang warning bells with many traders.

The other two main indices, the Topix and the Nikkei 300, continued to fall.

Some dealers now believe there is nothing to stop the Nikkei 225 falling to 16,500 or even lower, in the absence of more active government intervention.

The bond market also reacted strongly to regional events at the end of last week. On Friday morning the benchmark Japanese government bond yield fell to a record low of 1.665 per cent, although it crept up again in later trading.

Domestic news on the economy has hardly been encouraging, either: government pronouncements were more downbeat last week, and retail sales figures for September showed no improvement in depressed consumption levels.

Data to watch this week include the Bank of Japan's quarterly report on Monday, September industrial production on Wednesday, and the national consumer price index for September on Friday.

Also released on Friday are various labour market indicators, which may show a flattening of employment growth, adding to the economic gloom.

COMMODITIES By Kenneth Gooding

Central bank sales a worry for gold

The bears have metal markets in a tightening hug. Worried prodncers will be wondering how much more damage those bears will create this week.

Gold's price is already at a 12-year low. Nickel prices are at their lowest level for three years and copper ended last week near its lowest for a year.

US funds have been mainly responsible for pushing down metals prices, traders suggest. The funds started to sell base metals because of the turmoil in Asian markets and the impact this might have on the region's economic growth.

"The implications are serious for base metals," says Wiktor Bielski, analyst at Deutscbe Morgan Grenfell. "Japan, Korea, Taiwan and the Asean economies combined account for 20-30 per cent of world [base metals] consumption and China another 7-8 per cent. If consumption growth slows in these economies, the impact on demand will be significant. This suggests that base metal prices may struggle for the rest of the year, or at least until some stability returns to Asian markets."

The US funds sold gold heavily on Friday after a panel of experts recommended that Switzerland's central bank should sell 1,400 tonnes of the precious metal from its stocks if the country stops backing its currency with gold.

The proposal would be subject to a popular referendum which could not be held before early-1999. "The worry is that the Swiss have reminded other central banks thet might want to sell some gold that they had better rush for the exit," said Nick Moore, analyst at Flemings Global Mining Group.

"Funds looking to make bear profits in gold will continue to work this theme for a while and further test of the downside, perhaps to $300 an ounce, can't be ruled out." Gold fell 5 per cent to $309 in New York on Friday.

Jim Lennon, of Macquarie, the Australian bank, points out that "gold producers will be motivated to hedge their production before any more central bank sales further depress prices."

CURRENCIES By Richard Adams

Intervention proves an effective strategy

Direct intervention by monetary authorities is back in fashion, thanks to a stalwart performance by the Hong Kong Monetary Authority last week in defending its dollar peg.

Like Argentina in the wake of the 1995 Mexican peso crisis, the HKMA proved it is possible to control the exchange rate of an overvalued currency against market forces.

Singapore has also played its hand well in defending its currency, while South Korea has cushioned the won's fall with well-timed intervention. And the Japanese have "spooked" the market so skilfully in recent months – to rein in the dollar – that the market now does it for them.

The Bank of England wants to be able to do the same thing. The only problem is that it doesn't have any money to intervene with.

A little-noticed discussion in the Bank's Monetary Policy Committee minutes of the August meeting, published last month, of "alternative policy instruments" endorsed intervention in foreign exchange markets.

"There was a consensus that intervention was worth contemplating but only if it was accompanied by credible actions to put the economy on a course consistent with the inflation target. In those circumstances, it could help bring about an adjustment in the exchange rate, which might otherwise be more contracted," the minutes said.

Neil MacKinnon, chief economist at Citibank in London, said he was "very surprised" by the committee's opinion. "I hope they don't go down that route, because their track record has been so bad," be said.

Mr MacKinnon said intervention "could send entirely wrong signals" to the market. But Paul Meggyesi, at Deutsche Morgan Grenfell, said intervention could help the Bank curb the pound's recent overshoots.

The Bank has yet to work out a deal with the Treasury over the division of foreign exchange reserves. At the moment, the reserves remain in the Treasury's hands.

The publication of the Bank of England bill, expected this week, should clear the way for an agreement.

OTHER MARKETS Compiled by Jeffrey Brown

HONG KONG

Brokers are wary of calling the Hong Kong market this week: further volatility is on the cards before any clear direction is established after the recent turmoil. In the first four days of last week the benchmark Hang Seng Index shed some 23 per cent; on Friday it rebounded 6.9 per cent to close the week at 11,144.34.

However, the jitters remain. Concerns over higher interest rates after the banks hiked their prime rates yesterday stand to dampen demand in the property market at a time when the government has vowed to boost land supply.

While most market participants have been assured of the government's commitment to the currency peg – which came under speculative attack last week – the cost of maintaining it while neighbouring countries have devalued heavily has put a large question mark against Hong Kong's ability to compete in world markets.

With analysts reducing their forecasts for corporate earnings growth and economic growth, the outlook is more bearish. Liquidity also stands to be squeezed, as big investors desert what they previously saw as a safe shelter for calmer waters – or even cheaper ones, such as Thailand, which is where the regional turmoil began.

Some support is coming in from companies buying back their own shares and from broad market valnations. The earnings multiple on the Hang Seng index, for example, is under 10 times. But brokers said overall sentiment remained fragile and investors nervous.

PARIS

French equities emerged from last week's swirl of Asian-driven upsets with a fall on the CAC 40 index of little more than 3 per cent, so the market heads into the new trading account – which starts today – in a mood "of relative resilience", says a leading broker.

Bid stories continue to simmer away with media group Havas, up 5 per cent on Friday, at the centre of the latest wave of investor speculation. The insurance sector is provided with some earnings clues this week. GAN makes an interim statement tomorrow and Axa-UAP reports on Thursday.

NORDIC BLOC

Nordic stock markets face a another week of challenging nine-month results. With shares still trading on demanding valuations in spite of last week's turmoil, investors are likely to cast a close look at companies reporting. So far, the season has gone well with only SKF disappointing, but analysts warn that underperformers face being harshly punished.

Nokia will be a clear feature on Thursday. The Finnish technology company will be measured against last week's results from Swedish rival Ericsson, which lifted earnings by 65 per cent. Given that Nokia accounts for a third of the Finnish stock market by value, its figures will be crucial in setting the tone for Helsinki.

Sweden faces a busy week with Electrolux, Atlas Copco and Pharmacia & Upjohn all reporting. Atlas Copco has been a stellar performer this year so could be vulnerable to any change in sentiment.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Unilever (UK/N'lands)	Kebon (Brazil)	Food	$930m	Ice-cream move
General Accident (UK)	Canadian General (Canada)	Insurance	$527m	Buy from KKR
Culligan (US)	Protean (UK)	Water	$168m	Agreed cash bid
Lafarge (France)	Cementos Molinos (Spain)	Cement	$131m	Stake agreed
Aamulehti (Finland)	TV4 (Sweden)	Broadcasting	$93.4m	Investor strategy shift
Bic (France)	Sheaffer (US)	Pens	$33m	Complete at last
Gazprom (Russia)	Middlesex Holdings (UK)	Commodities	$25m	Cash injection
Insignia Financial (US)	Richard Ellis (UK)	Property	n/a	Sector globalises
Millennium Chemicals (US)	Thann et Mulhouse (France)	Chemicals	n/a	Rhone-Poulenc sale
Continente (France)	Simago (Spain)	Retailing	n/a	Dairy Farm sale

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 24, 1997. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7781.97	4750.00	2671.09	3916.72
Albania	(Lek)	240.499	147.175	82.7616	121.356
Algeria	(Dinar)	97.2289	59.5000	33.4589	49.0621
Andorra	(French Fr)	9.7356	5.9578	3.3503	4.9126
	(Sp Peseta)	245.001	149.930	84.3132	123.628
Angola	(Readj Kwanza)	420172.6	257128.0	144592.0	212020.6
Antigua	(E Carib $)	4.4121	2.7000	1.5183	2.2264
Argentina	(Peso)	1.6332	0.9995	0.5620	0.8241
Armenia	(Dram)	818.847o	501.100	281.786	413.193
Aruba	(Florin)	2.9251	1.7900	1.0066	1.4760
Australia	(Aus $)	2.3300	1.4258	0.8018	1.1757
Austria	(Schilling)	20.4527	12.5162	7.0385	10.3205
Azerbaijan	(Manat)	6454.69o	3950.00	2221.22	3257.06
Azores	(Port Escudo)	295.739	180.980	101.774	149.231
Bahamas	(Bahama $)	1.6341	1	0.5624	0.8246
Bahrain	(Dinar)	0.6161	0.3770	0.2120	0.3109
Balearic Is	(Sp Peseta)	245.001	149.930	84.3132	123.628
Bangladesh	(Taka)	72.7962	44.5500	25.0527	36.7347
Barbados	(Barb $)	3.2867	2.0113	1.1310	1.6585
Belarus	(Rouble)	70818.8o	43338.9	24389.9	35734.4
Belgium	(Belg Fr)	59.9081	36.6600	20.6158	30.2288
Belize	(B $)	3.2682	2.0000	1.1247	1.6492
Benin	(CFA Fr)	973.560	595.780	335.034	491.260
Bermuda	(Bermudian $)	1.6341	1	0.5624	0.8246
Bhutan	(Ngultrum)	59.2035	36.2300	20.3740	29.8743
Bolivia	(Boliviano)	8.6935	5.3200	2.9917	4.3867
Botswana	(Pula)	6.0304	3.6900	2.0751	3.0427
Brazil	(Real)	1.7986	1.1007	0.6190	0.9076
Brunei	(Brunei $)	2.6827	1.6805	0.9450	1.3857
Bulgaria	(Lev)	2890.72	1769.00	994.770	1458.67
Burkina Faso	(CFA Fr)	973.560	595.780	335.034	491.260
Burma	(Kyat)	10.2159	6.2517	3.5156	5.1550
Burundi	(Burundi Fr)	570.946	349.395	196.477	288.101
Cambodia	(Riel)	4802.30	3000.00	1687.00	2473.72
Cameroon	(CFA Fr)	973.560	595.780	335.034	491.260
Canada	(Canadian $)	2.2749	1.3916	0.7827	1.1475
Canary Is	(Sp Peseta)	245.001	149.930	84.3132	123.628
Cp. Verde	(CV Escudo)	155.419	95.1100	53.4837	78.4251
Cayman Is	(CI $)	1.3534	0.8282	0.4657	0.6829
Cent. Afr. Rep	(CFA Fr)	973.560	595.780	335.034	491.260
Chad	(CFA Fr)	973.560	595.780	335.034	491.260
Chile	(Chilean Peso)	675.129	413.150	232.335	340.672
China	(Yuan)	13.5358	8.2833	4.6581	6.8302
Colombia	(Col Peso)	2078.49	1271.95	715.282	1048.81
Comoros	(Fr)	731.648	447.735	251.779	369.192
Congo	(CFA Fr)	973.560	595.780	335.034	491.260
Congo (DemRep)	(Zaire)(2)	224688.6	137500.0	77321.0	113378.7
Costa Rica	(Colon)	392.268	240.050	134.999	197.939
Côte d'Ivoire	(CFA Fr)	973.560	595.780	335.034	491.260
Croatia	(Kuna)	10.2275	6.2588	3.5196	5.1606
Cuba	(Cuban Peso)(1)	37.5843	23.0000	12.9337	18.9652
Cyprus	(Cyprus £)	0.8548	0.5231	0.2942	0.4313
Czech Rep.	(Koruna)	54.7800	33.5230	18.8517	27.6421
Denmark	(Danish Krone)	11.0622	6.7696	3.8069	5.5820
Djibouti Rep	(Djib Fr)	290.412	177.720	99.9381	146.543
Dominica	(E Carib $)	4.4121	2.7000	1.5183	2.2264
Dominican Rep	(D Peso)	23.4902	14.3750	8.0836	11.8532
Ecuador	(Sucre)	6900.80o	4223.00	2374.74	3482.17
	(Sucre)	6893.35a	4218.50	2372.77	3479.28
Egypt	(Egyptian £)	5.5555	3.3999	1.9119	2.8033
El Salvador	(Colon)	14.3069	8.7550	4.9232	7.2191
Equat'l Guinea	(CFA Fr)	973.560	595.780	335.034	491.260
Estonia	(Kroon)	23.2454	14.2252	7.9996	11.7297
Ethiopia	(Ethiopian Birr)	10.9299	6.6880	3.7609	5.5147
Falkland Is	(Falk £)	1	0.6120	0.3441	0.5046
Faroe Is	(Danish Krone)	11.0622	6.7696	3.8069	5.5820
Fiji Is	(Fiji $)	2.3766	1.4556	0.8195	1.2003
Finland	(Markka)	8.8967	5.4420	3.0628	4.3684
France	(Fr)	9.7356	5.9578	3.3503	4.9126
Fr. Cty/Africa	(CFA Fr)	973.560	595.780	335.034	491.260
Fr. Guiana	(Local Fr)	9.7356	5.9578	3.3503	4.9126
Fr. Pacific Is	(CFP Fr)	177.369	108.542	61.0370	89.5007
Gabon	(CFA Fr)	973.560	595.780	335.034	491.260
Gambia	(Dalasi)	16.4370	10.0588	5.6564	8.2942
Germany	(D-Mark)	2.9058	1.7783	1	1.4663
Ghana	(Cedi)	3548.14	2232.50	1255.45	1840.86
Gibraltar	(Gib £)	1	0.6120	0.3441	0.5046
Greece	(Drachma)	456.257	279.210	157.014	230.229
Greenland	(Danish Krone)	11.0622	6.7696	3.8069	5.5820
Grenada	(E Carib $)	4.4121	2.7000	1.5183	2.2264
Guadeloupe	(French Fr)	9.7356	5.9578	3.3503	4.9126
Guam	(US $)	1.6341	1	0.5624	0.8246
Guatemala	(Quetzal)	10.0856	6.1587	3.4636	5.0791
Guinea	(Fr)	1849.80	1132.00	636.563	933.416
Guinea-Bissau	(CFA Fr)(3)	973.560	595.780	335.034	491.260
Guyana	(Guyanese $)	233.349	142.800	80.3014	117.749
Haiti	(Gourde)	28.3559	17.3525	9.7580	14.3085
Honduras	(Lempira)	21.5946	13.2150	7.4313	10.8967
Hong Kong	(HK $)	12.6390	7.7345	4.3495	6.3777
Hungary	(Forint)	323.188	197.765	111.213	163.072
Iceland	(Icelandic Krona)	117.770	72.0700	40.5286	59.4269
India	(Indian Rupee)	59.2035	36.2300	20.3740	29.8743
Indonesia	(Rupiah)	5841.91	3575.00	2010.40	2947.85
Iran	(Rial)	4902.30u	3000.00	1687.06	2473.72
Iraq	(Iraqi Dinar)	0.5081o	0.3109	0.1748	0.2564
Iraq	(Iraqi Dinar)	1960.92m	1200.00	674.802	989.487
Irish Rep	(Punt)	1.1177	0.6840	0.3846	0.5640
Israel	(Shekel)	5.8169	3.5593	2.0016	2.9349
Italy	(Lira)	2835.06	1734.95	975.650	1430.59
Jamaica	(Jamaican $)	56.5369	34.6000	19.4568	28.5302
Japan	(Yen)	198.176	121.275	68.1991	100
Jordan	(Jordanian Dinar)	1.1619	0.7110	0.3998	0.5863
Kazakhstan	(Tenge)	123.734	75.7200	42.5800	62.4366
Kenya	(Kenya Shilling)	104.051	63.6750	35.8077	52.5046
Kiribati	(Australian $)	2.3300	1.4258	0.8018	1.1757
Korea North	(Won)	3.5950	2.2000	1.2371	1.8141
Korea South	(Won)	1519.47	929.850	522.902	766.729
Kuwait	(Kuwaiti Dinar)	0.4973	0.3044	0.1712	0.2510
Laos	(New Kip)	1859.60	1138.00	639.957	938.363
Latvia	(Lats)	0.9559	0.5858	0.3293	0.4829
Lebanon	(Lebanese £)	2509.96	1536.00	863.771	1266.54
Lesotho	(Maluti)	7.7269	4.7285	2.6591	3.8990
Liberia	(Liberian $)	1.6341	1	0.5624	0.8246
Libya	(Libyan Dinar)	0.6267	0.3835	0.2157	0.3162
Liechtenstein	(Swiss Fr)	2.4033	1.4707	0.8270	1.2127
Lithuania	(Litas)	6.5360	3.9998	2.2493	3.2981
Luxembourg	(Lux Fr)	59.9081	36.6600	20.6158	30.2288
Macao	(Pataca)	13.0853	7.9954	4.4961	6.5928
Macedonia	(Denar)	89.3607	54.6850	30.7513	45.0917
Madagascar	(MG Fr)	8129.64	4975.00	2797.62	4102.25
Madeira	(Port Escudo)	295.739	180.980	101.774	149.231
Malawi	(Kwacha)	28.9644	17.7250	9.9674	14.6158
Malaysia	(Ringgit)	5.5396	3.3900	1.9064	2.7953
Maldive Is	(Rufiya)	19.2334	11.7700	6.6187	9.7052
Mali Rep	(CFA Fr)	973.560	595.780	335.034	491.260
Malta	(Maltese Lira)	0.6430	0.3935	0.2213	0.3245
Martinique	(Local Fr)	9.7356	5.9578	3.3503	4.9126
Mauritania	(Ouguiya)	270.526	165.550	93.0971	136.509
Mauritius	(Maur Rupee)	35.7866	21.9000	12.3155	18.0581
Mexico	(Mexican Peso)	12.7811	7.8215	4.3984	6.4494
Moldova	(Leu)	7.5496	4.6200	2.5980	3.8095
Monaco	(French Fr)	9.7356	5.9578	3.3503	4.9126
Mongolia	(Tugrik)	1282.38	784.780	441.298	647.091
Montserrat	(E Carib $)	4.4121	2.7000	1.5183	2.2264
Morocco	(Dirham)	15.7994	9.6686	5.4370	7.9724
Mozambique	(Metical)	18784.0	11495.0	6464.04	9478.46
Namibia	(S A Rand)	7.7269	4.7285	2.6591	3.8990
Nauru Is	(Australian $)	2.3300	1.4258	0.8018	1.1757
Nepal	(Nepalese Rupee)	95.3302	58.3500	33.1496	48.6066
Netherlands	(Guilder)	3.2743	2.0036	1.1268	1.6522
N'nd Antilles	(A/Guilder)	2.9251	1.7900	1.0066	1.4760
New Zealand	(NZ $)	2.6178	1.6019	0.9008	1.3209
Nicaragua	(Gold Cordoba)	15.9916	9.7862	5.5031	8.0694
Niger Rep	(CFA Fr)	973.560	595.780	335.034	491.260
Nigeria	(Naira)	35.7669o	21.8880	12.3073	18.0455
	(Naira)	133.882m	81.9300	46.0734	67.5572
Norway	(Nor. Krone)	11.6710	7.1422	4.0164	5.8892
Oman	(Rial Omani)	0.6291	0.3850	0.2165	0.3174
Pakistan	(Pak. Rupee)(4)	71.9102	44.0060	24.7468	36.2861
Panama	(Balboa)	1.6341	1	0.5624	0.8246
Papua New Guinea	(Kina)	2.3821	1.4577	0.8197	1.2020
Paraguay	(Guarani)	3554.17	2175.00	1223.08	1793.44
Peru	(New Sol)	4.3704	2.6745	1.5040	2.2053
Philippines	(Peso)	57.6021	35.2500	19.8229	29.0662
Pitcairn Is	(£ Sterling)	1	0.6120	0.3441	0.5046
	(NZ $)	2.6178	1.6019	0.9008	1.3209
Poland	(Zloty)	5.6001	3.4270	1.9272	2.8258
Portugal	(Escudo)	295.739	180.980	101.774	149.231
Puerto Rico	(US $)	1.6341	1	0.5624	0.8246
Qatar	(Riyal)	5.9496	3.6409	2.0474	3.0022
Reunion Is. de la	(F/Fr)	9.7356	5.9578	3.3503	4.9126
Romania	(Leu)	12615.3	7720.00	4341.36	6365.70
Russia	(Rouble)	9589.72m	5868.50	3300.15	4839.00
Rwanda	(Fr)	489.491	299.548	168.446	246.999
St Christopher	(E Carib $)	4.4121	2.7000	1.5183	2.2264
St Helena	(£)	1	0.6120	0.3441	0.5046
St Lucia	(E Carib $)	4.4121	2.7000	1.5183	2.2264
St Pierre & Miquelon	(F/Fr)	9.7356	5.9578	3.3503	4.9126
St Vincent	(E Carib $)	4.4121	2.7000	1.5183	2.2264
San Marino	(Italian Lira)	2835.06	1734.95	975.650	1430.59
Sao Tome	(Dobra)	3905.50	2390.00	1343.98	1970.73
Saudi Arabia	(Riyal)	6.1294	3.7510	2.1093	3.0929
Senegal	(CFA Fr)	973.560	595.780	335.034	491.260
Seychelles	(Rupee)	8.2896	5.0730	2.8527	4.1831
Sierra Leone	(Leone)	1274.60	780.000	438.621	643.166
Singapore	($)	2.5827	1.5805	0.8888	1.3032
Slovakia	(Koruna)	55.2506	33.8110	19.0136	27.8795
Slovenia	(Tolar)	274.195	167.795	94.3603	138.360
Solomon Is	($)	6.1109	3.7396	2.1028	3.0836
Somali Rep	(Shilling)	4281.34	2620.00	1473.32	2160.38
South Africa	(Rand)	7.7269	4.7285	2.6591	3.8990
Spain	(Peseta)	245.001	149.930	84.3132	123.628
Spanish Ports in N Africa	(Sp Peseta)	245.001	149.930	84.3132	123.628
Sri Lanka	(Rupee)	97.5149	59.6750	33.5583	49.2063
Sudan Rep	(Dinar)	233.513	142.900	80.3577	117.831
Surinam	(Guilder)	655.274	401.000	225.496	330.654
Swaziland	(Lilangeni)	7.7269	4.7285	2.6591	3.8990
Sweden	(Krona)	12.4242	7.6031	4.2758	6.2693
Switzerland	(Fr)	2.4033	1.4707	0.8270	1.2127
Syria	(£)	65.3640	40.0000	22.4934	32.9829
Taiwan	($)	49.6334	30.3735	17.0806	25.0451
Tanzania	(Shilling)	1002.85	613.700	345.105	506.040
Thailand	(Baht)	62.9946	38.5500	21.6786	31.7873
Togo Rep	(CFA Fr)	973.560	595.780	335.034	491.260
Tonga Is	(Pa'anga)	2.3300	1.4258	0.8018	1.1757
Trinidad/Tobago	($)	10.0887	6.1800	3.4752	5.0959
Tunisia	(Dinar)	1.8527	1.1338	0.6376	0.9349
Turkey	(Lira)	300265.9	183750.0	103331.9	151515.2
Turks & Caicos	(US $)	1.6341	1	0.5624	0.8246
Tuvalu	(Australian $)	2.3300	1.4258	0.8018	1.1757
Uganda	(New Shilling)	1856.34	1136.00	638.812	936.714
Ukraine	(Hryvnia)	3.0713	1.8795	1.0569	1.5498
U A E	(Dirham)	6.0019	3.6729	2.0655	3.0286
United Kingdom	(£)	1	0.6120	0.3441	0.5046
United States	(US $)	1.6341	1	0.5624	0.8246
Uruguay	(Peso Uruguayo)	16.0387	9.8150	5.5193	8.0932
Vanuatu	(Vatu)	194.131	118.800	66.8073	97.9592
Vatican	(Lira)	2835.06	1734.95	975.650	1430.59
Venezuela	(Bolivar)	814.661v	498.550	280.350	411.091
Vietnam	(Dong)	20094.5	12297.0	6915.03	10139.8
Virgin Is-British	(US $)	1.6341	1	0.5624	0.8246
Virgin Is-US	(US $)	1.6341	1	0.5624	0.8246
Western Samoa	(Tala)	4.3363	2.6536	1.4922	2.1881
Yemen (Rep of)	(Rial)	223.872r	137.000	77.0399	112.988
Yugoslavia	(New Dinar)	9.6369	5.8992	3.3173	4.8643
Zambia	(Kwacha)	2186.43	1338.00	752.425	1103.28
Zimbabwe	($)	20.2874	12.4150	6.9816	10.2371
ECU	(ECU)	1.4738	0.9018	0.5071	0.7436
SDR	(SDR)	1.19324	0.732901	0.411904	0.606203

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (f) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Market rate now shown for Cuba (2) Name changed from Zaire on May 19th 1997, currency scheduled to change to Congolese Francs (3) Guinea-Bissau adopted the CFA Franc to replace the Peso on 1/5/97 (4) Pakistan Rupee devalued by 8% on 15/10/97: FT enquiries to Business Research Centre 0171 256 0130. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365.
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Friday, October 24, 1997

SIGMA SECURITIES S. A. - MEMBER OF THE ATHENS STOCK EXCHANGE
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FAX: (301) 3252241 - TELEX 210733 ATRA GR
Contact Name: Mr John Marcopoulos
REUTERS PAGES: ATGG-H-I
TELERATE PAGES: 17890-1-2
Internet Page: www. istoa.net.gr/sigma

ATHENS STOCK EXCHANGE October 20th - October 24th 1997 GREECE

				GDP (USD bn) 97e	116.76
ASE INDEX	1696.18	P/E (after tax) 97e/98e	16.4/20.6	Per Capita Income (USD)	11,227
%Chg (31/12/96)	81.70	EPS GROWTH (%) 97e	23.1	Inflation Rate (% Y.O.Y, September '97)	4.90
Yearly High	1808.85	P/E 97e / EPS GROWTH (%) 97e	0.71	October 12 M T-Bill rate (%)	9.50
Yearly Low	932.38	P/CE 97e/98e	13.4/16.2	1-Month Athibor (%)	12.15
WEEKLY VOL. (USD m)	335.54	P/BV 97e/98e	3.5/4.1	GRD/US$ (October 24, 1997)	279.58
%Chg (Prev. Wk)	-25.96	Div. Yield (%) 97e/98e	3.8/2.9	A.S.E. Market Capitalisation - 24/10/97 (USD bn)	38.85
1 Y Wk Avg Vol. (USD m)	350.50			IPOs & Rights Issues (in USD m) Jan 1 '97-October 24 '97	1,731.58

The Republic of Venezuela
U.S. $968,562,000
Collateralized Floating Rate Bonds due 2020
USD Discount Series A

In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from October 23, 1997 to April 23, 1998 the Bonds will carry an Interest Rate of 6.75% per annum. The interest payable on the relevant interest payment date, April 23, 1998 will be U.S. $34.13 per U.S. $1,000 principal amount.

By: The Chase Manhattan Bank
Agent Bank

October 27, 1997
CHASE

The Republic of Venezuela
U.S. $298,898,000
Floating Rate Bonds due 2008
USD Debt Conversion Series II.

In accordance with the provisions of the Bonds, notice is hereby given that for the Interest Period from October 23, 1997 to December 18, 1997 the Bonds will carry an Interest Rate of 6.625% per annum. The interest payable on the relevant interest payment date, December 18, 1997 will be U.S. $10.31 per U.S. $1,000 principal amount.

By: The Chase Manhattan Bank
Agent Bank

October 27, 1997
CHASE

Notice of Early Redemption

BANCO BNL DO BRASIL S.A.
(the "Bank")

U.S. $20,000,000

Step-Up Fixed Rate Notes due 2001
(the "Notes")

Notice is hereby given that the Bank has elected to exercise its option to redeem all of the outstanding Notes on November 27, 1997 (the "Redemption Date") in accordance with Condition 6.03 of the Terms and Conditions of the Notes. The Notes will be redeemed at 100.25% of their principal amount together with accrued interest to the Redemption Date.

Payment of principal and interest will be made against surrender of the Notes and Coupons at the specified offices of any of the Paying Agents listed below. Each Note should be presented for payment together with all unmatured Coupons appertaining thereto. Such unmatured Coupons (whether or not attached thereto) shall become void and no payment shall be made in respect thereof.

Notes and matured Coupons will become void unless presented for payment within a period of 10 and 5 years respectively from the Relevant Date, as defined in Condition 10 of the Terms and Conditions of the Notes.

PRINCIPAL PAYING AGENT
Chase Trust Bank
13th floor, Akasaka Park Building
2-20 Akasaka, 5 Chome
Minato-ku, Tokyo 107, Japan

SUB AGENT
Chase Manhattan Bank Luxembourg S.A.
5 Rue Plaetis
L-2338 Luxembourg

SÃO PAULO PAYING AGENT
Internationale Nederlanden Bank N.V.
Avenida Brigadeiro Faria Lima, 354, 10° andar
01451-000-São Paulo-SP, Brazil

Dated: October 27, 1997

EMERGING MARKETS By Mark Huband

North Africa offers haven

Low foreign borrowing and high dollar earnings through tourism and transfer payments have intensified Egypt's hopes that fund managers looking for alternatives to unsettled Far Eastern markets will now reverse a levelling trend and increase investments across North African markets.

With capital flows to Asia expected to fall by 25 per cent to $107.1bn this year, according to a recent survey by the Institute of International Finance, the attraction of North Africa is likely to be increasingly portrayed as a wise alternative.

"This is a time for North Africa. It's time for relocation. To show what makes us different," said Sherif Raafat, chairman of the Cairo Stock Exchange, which is now capitalised at $21bn, the largest in the region.

Mr Raafat, who has instigated widespread reform of the CSE to streamline transactions and ensure transparency, said during October he had met with 40 fund managers interested in investment.

"This level of interest is indicative. Egypt is quite different from the Far East. There's been a reliance there on an export boom based on a weak dollar and a strong yen," Mr Raafat said. "In Egypt we don't have borrowings abroad. It's hard to speculate against the pound. And there is no forward market. Also, we are not an export oriented economy."

Egypt's strong position stems from the near-absence of currency speculation, annual transfer payments of $6bn-$7bn, contributing to $10bn-$12bn annual income, in addition to $3.7bn foreign currency earnings from tourism expected this year.

But the financial fundamentals are not all that count. Governments know that fund managers will look as much at regions as specific countries. While Egypt is expecting its foreign portfolio investment to reach $1.5bn this year, other regional economies are struggling to achieve these levels.

"We don't think that the countries of the Middle East and North Africa can absorb the investment that would otherwise be destined for the Far East," said Ahmed Abdelkefi of Tunisie Valeur, a leading Tunisian brokerage house. Despite such views, the company has to date handled $30m of foreign share sales of Tunisian stocks.

"Our problem is that there's not much to sell. Even so, we are selling a little more than before the crisis in tha Far East, but largely because the government now allows foreigners to buy up to 50 per cent stakes," he said.

Tunisian p/e ratios are around 15, which has encouraged foreign investors. A steady correction has now almost settled the market. Meanwhile, infrastructure changes have seen an electronic trading system installed at the bourse.

But aims remain clear: "We want to go slowly. We don't want to sell debt. We only sell stocks," Mr Abdelkefi said.

Caution dominates the smaller economies of North Africa, just as boundless ambition excites the Egyptian steamroller.

The Casablanca bourse, currently valued at Dh118bn ($12.2bn), has seen a 52 per cent rise in Morocco's general stock market index this year, though largely as a result of the overvaluation of leading stocks. While expectations of a correction have mounted, values have risen to their current level of 17 times 1997 earnings.

"Morocco is more expensive than the Egyptian market. We have received three or four new foreign investors per month, which is not many. Last year it was many more," said Mohammed Mekouar of Upline Securities, Morocco's leading manager of foreign security sales.

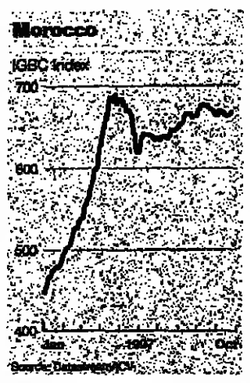
"The regional bourses in North Africa are seen as mora stahle than tha Far East. There's an increase in interest in this region generally, but the investors are choosing their countries, and there's lower valuation in Egypt and Tunisia, while in Egypt there's greater liquidity than in Morocco," he said.

Casablanca-based Upline is now seeking to expand its oparations in Tunisia, encouraged by foreign clients keen to use its regional research expertise even in markets where it has still to find its way.

Foreign brokers view North Africa as lagging well behind the integrated Asian markets, despite Egyptian hopes. "If things became more integrated it would encourage investors who eye regions rather than single countries," said Hazem Moussa of HSBC James Capel in Cairo, which has recently established financial operations in the Egyptian capital.

"Asia has benefited from this integration. It's more than just one market. It's 10 or so countries, which are all compatible. In the Middle East and North African countries, for example, you have Egypt which is restructuring, and Lebanon which is rebuilding.

"Even so, with regard to whether there will be increasing flows to this region on the back of the problems in Asia, it's a little early to tell."



Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms Oct 23 1997	% Change over week	% Change on Dec '96
Latin America	(247)	751.41	–4.2	+39.7
Argentina	(30)	1,213.76	–3.2	+27.7
Brazil	(68)	577.54	–5.2	+45.7
Chile	(46)	730.93	–1.8	+17.9
Colombia[1]	(14)	890.35	–1.9	+40.6
Mexico	(63)	793.06	–4.8	+49.7
Peru[2]	(17)	240.81	–3.7	+22.4
Venezuela[3]	(9)	1,123.98	–1.3	+54.4
Asia	(708)	149.43	–8.2	–40.9
China[4]	(27)	62.29	–13.2	–15.5
South Korea[5]	(156)	65.10	+6.3	–15.7
Philippines	(42)	130.99	–11.3	–55.4
Taiwan, China[6]	(90)	148.91	–4.1	–2.8
India[7]	(77)	98.14	–1.8	+24.6
Indonesia[8]	(49)	86.42	–1.6	–48.0
Malaysia	(147)	141.40	–16.0	–58.0
Pakistan[9]	(28)	283.78	+1.8	+45.0
Sri Lanka[10]	(5)	127.24	–2.7	+33.8
Thailand	(87)	90.54	–8.3	–59.1
Euro/Mid East	(258)	170.71	–3.1	+27.1
Czech Rep	(5)	65.45	–5.4	–6.7
Egypt	(16)	103.15	+0.4	–
Greece	(54)	380.20	–5.8	+56.9
Hungary[11]	(12)	312.41	–0.2	+58.8
Israel	(40)	131.13	0.0	+31.1
Jordan	(7)	214.06	+0.8	+14.7
Morocco	(5)	131.42	+0.1	–
Poland[12]	(29)	730.39	–4.4	–0.3
Portugal	(28)	198.33	–4.0	+35.7
Russia	(15)	197.26	–2.1	–
Slovakia	(5)	104.73	0.0	–
South Africa[13]	(61)	214.54	–5.5	+2.8
Turkey[14]	(57)	349.88	+4.2	+135.1
Zimbabwe[15]	(5)	567.91	+4.3	+20.0
Composite	(1,213)	293.10	–5.1	–0.6

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1992; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

INTERNATIONAL BONDS By Edward Luce and Samer Iskandar

Asian credits bear brunt of battering

Emerging market bond investors have had a rough ride over the past few days, as speculative attacks on Hong Kong's currency and stock market stoked up a sense of hearishness towards Asian credits in general.

Standard & Poor's decision last Friday to downgrade the sovereign credit ratings of South Korea and Thailand compounded the general sense of gloom. But with yield spreads on Asian sovereign bonds widening more dramatically than other emerging market debt on Wednesday and Thursday, analysts said the contagion effect would probably be of limited duration elsewhere.

"Latin American bonds have suffered," said Peter West, chief economist at BBV Latinvest. "But they received less of a battering than their Asian countarparts."

Analysts say the extent of the crisis should be put into broadar perspective. Although some issuers, such as Thailand, Korea and Malaysia saw a steep fall in their bond prices, others were relatively unscathed.

According to J.P. Morgan's emerging market bond index, Latin American bonds fell by just 1.8 per cent on Thursday, the worst day, compared with 2.48 per cent for non-Latin credits.

Overall, however, the emerging market index was still about 17 per cent higher than it was at the start of the year.

"Latin American and east European bonds have shown mora resilience than you would have expected of them in such circumstances," said one bond syndicate official. "Many investors are simply taking this as an opportunity for short-term profit-taking."

Others, however, were mystified at the decision of some emerging market borrowers to tap the markets at such a turhulent moment. Both China, which issued $500m of global bonds on Wednesday afternoon, and Lehanon, which issued a 10-year $400m eurohond on Thursday, were punished severely for their temerity.

The China bond, which widened by about 20 basis points after launch to a spread of between 85 and 90 basis points, was singled out by ona banker as "spectacularly badly-timed".

Bond traders said it was almost impossible to find a bid price for the second tranche of the China bond – a $100m tranche of 30-year paper. The issue was underwritten by J.P. Morgan and Merrill Lynch.

"It is difficult to understand why they chosa to launch it when thay did," said the head of a bond syndicate at a leading investment bank in London. "Market conditions are bound to improve sooner or later."

Labanon's first ever 10-year eurobond suffered a similar fate, its yield spread widening snbstantially in the hours following the launch.

Analysta, however, say non-Asian emerging market paper will probably recover the ground lost last week in a relatively short space of time depending on the turn of events elsewhere.

"In the unlikely event that the Hong Kong peg to the US dollar is broken, the markets would probably turn on Latin America and especially Brazil," said Mr West. "But otherwise there is still a lot of liquidity out there and investors are still searching for yield."

Last week's "flight to quality" pushed the yield on the US Treasury long bond down to 6.35 per cent at one stage, comfortably below the yields of more than 7 per cent registered earlier in the year.

Short of a steep rise in US interest rates, yields available on "quality" bonds are still too low to satisfy most investors' growth targets.

"There has been a lot of compression in Latin American spreads this year, so it is a good time for fund managers to realise gains," said a bond official in New York. "But on economic fundamentals Latin America is in a mnch better shape than it has been for a long time so there is no reason why it should sea a sustained sell-off."

Christina Heinl, head of investment at BB Securities in London, part of the Banco do Brasil Group, said: "The market was mainly uneasy about East Asia, and Latin American bonds suffered from tha spill-over.

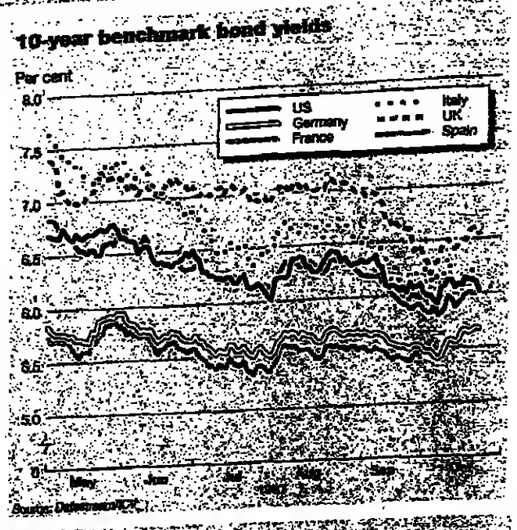
"The sellers were mostly traders, not final investors."

Ms Heinl expects Latin American bonds, Brazilian Brady bonds in particular, to recover soon.

"Bradys should rise again fairly soon," sha said. "But eurobonds could take longer."

She pointed out that Brazilian economic fundamentals remained bond-friendly, with inflation contained at modest levels, the privatisation process on track and the government moving ahead with planned reforms.

Furthermore, she said, "this has been a good year for emerging market investors. There are barely two months left and nobody wants to end the year taking losses".



INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	[illegible]
Discount	5.00	0.50	2.50	3.30	5.25	[illegible]
Overnight	n/a	n/a	3.34	3.31	6.81	[illegible]
Three month	5.16	0.44	3.51	3.22	5.51	[illegible]
One year	5.48	0.46	4.11	3.06	5.95	[illegible]
Five year	5.95	1.19	5.19	5.31	5.74	[illegible]
Ten year	6.09	1.93	5.37	5.59	6.24	[illegible]

(1) France: intervention rate; (2) UK: base rate. Source: Datastream

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
Winbond Electronics(p)§§	100	Nov 2002	1.00	100.00	-	-	Paribas
Energie Beheer Nederland	200	Nov 2002	6.25	99.56R	6.355	+20(5¾Sep02)	Tokyo-Mitsubishi Intl
Eurofoodbank	150	Nov 2000	8.75‡	99.49R	8.951	+300(6Aug00)	UBS
Vigoro(b)★	50	Oct 2005	(m)‡	99.8727R	9.600	+365(8Aug00)	BankBoston
Eksty Bank of Japan	500	Nov 2002	6.375	99.98R	6.049	+25(5¾Sep02)	Goldman Sachs Intl
Federal Farm Credit Bank(f)	500	Nov 2000	6.33‡	99.986R	6.335	+37(6¾Aug00)	Goldman/M Stanley
Leasecor Finance(j)§	350	Nov 2003	1.00	100.00	-	-	SBCWDR
CKO(p)★	75	Oct 2005	10.00‡	99.31R	10.09	+400(6/T)	UTCI International
Tokuku Electric Power Co	400	Oct 2002	6.50	99.053R	6.535	+38(5¾Sep02)	Goldman/BJ Intl
Oil Purchase Company(o,l)	299	Apr 2002	7.10	99.933R	7.192	+12(6Aug00)	Salomon Brothers Intl
Indonesian MNC, 97-1(p)‡	177.5	Jun 2000	(p1)	100.00	-	-	Salomon Brothers Intl
CSFB, London Branch(p)§	100	Nov 2005	2.00	100.00	-	-	CSFB
Banco Safra, Cayman Is	100	Oct 2002	8.75‡	99.91GR	8.771	+270(5¾%-02)	JP Morgan Securities
Banco Safra, Cayman Is	100	Nov 2000	8.125‡	99.773R	8.212	+225(6Aug00)	JP Morgan Securities
Peoples Republic of China	400	Oct 2002	6.625‡	99.4GR	6.754	+68(5¾Sep02)	Merrill/JP Morgan Secs
Peoples Republic of China	100	Oct 2027	7.50‡	98.673R	7.613	+115(6⅞%-27)	Merrill/JP Morgan Secs
Russian Federation(q)	400	Jun 2007	10.00‡	103.50R	9.436	+334(6⅞%-07)	JP Morgan/SBCWDR
Republic of Lebanon	400	Oct 2007	8.625	99.61R	8.695	+250(6½%-07)	CSFB/SBCWDR
ML RHELABC(r)★	363.791	Mar 2004	(r1)	100.00	-	-	Merrill Lynch
Banco ABN Amro Brasil	100	Oct 1998	7.125‡	100.00R	7.125	+100(Libor)	ABN Amro Hoare Govett
Banco Citibank	50	Oct 2000	7.30	99.815R	7.370	+150(5Aug00)	Citicorp International
Bankers Trust NY Corp(r)★	50	Nov 1998	zero	100.00	-	-	Daiwa Europe
Christiania Bank(b)‡	80	Oct 1998	(b1)	100.05	-	-	Paribas
D-MARKS							
Banco Bozano	500	Nov 2005	8.25	99.60R	8.320	+273(6½%-05)	Commerzbank
Suedwestdt.LB Capital Markets	500	Nov 2004	5.50	99.75R	5.542	+70(7½Sep04)	Barclays/SBC Warburg
Tinkious & Burkhardt Finance	300	Nov 2002	5.375	101.46	5.037	-	HSBC Trinkaus
European Inv'ment Bank(j)	1bn	Apr 2004	9.25	99.021R	5.44	+45(4¾%Mar04)	BNP/Dresdner/SBCW
Oest Postsparkassa	500	Nov 2002	9.25	99.74R	5.311	+20(4½May02)	Bayer/B/Merrill Lynch
Arbed(h)§	250	Oct 2004	9.25	100.00	-	-	Morgan Stanley DW
Frankfurter Hypob	*2bn*	*Nov 2004*	*5.50*	*99.369R*	*5.612*	*+11(7½Sep04)*	*Deutsche/M Stanley*
Stadt of Vienna(k)	1bn	Jan 2008	5.75	99.27R	5.85	+15(6¾Jan07)	Yamaichi/Merrill/Paribas
Caymadrid Intl‡	500	Nov 2002	(A)	100.069R	-	-	Morgan Stanley Bank
SanAmerica Intl Funding‡	200	Nov 2002	(B)	99.99	-	-	Deutsche Morgan G'ell
Korea Electric Power‡	150	Oct 2002	(C)	99.775R	-	-	SBC Warburg
YEN							
World Bank(l)★	10bn	Oct 2001	3.50‡	100.00	-	-	Nomura International
DSL Bank(l,l)	20bn	Nov 2000	5.50‡	99.96	-	-	Nomura International
CANADIAN DOLLARS							
United Mexican States(s)	500	Jun 2003	7.00‡	99.404R	7.133	+175(7¼%-03)	Merrill/Scotia Cap Mkts
STERLING							
Railtrack(u)	300	Nov 2022	7.375	99.001R	7.464	+78(6%-2021)	Barclays/HSBC Markets
Hypothekenbank in Essen(t)	*150*	*Nov 2004*	*6.875*	*99.73R*	*6.925*	*+20(5¾Nov04)*	*Commerzbank/HSBC*
CBCo(u)‡	70	Nov 2002	7.68	100.25	-	-	UBS
Midlands Electricity(m)	150	Nov 2007	7.375	99.855R	7.398	+73(7¼Dec07)	Barclays
Korea Electric Power(f)	50	Apr 2007	8.50	102.439R	8.108	+135(6½%-07)	SBCWDR
FRENCH FRANCS							
Bayerische Hypo	2bn	Nov 2003	5.375	99.535R	5.466	+18(6)	BNP/CDC Marchés
Lehman Brothers Holdings‡	1bn	Oct 2002	(c)	99.771R	-	-	Banque Lehman Bros
La Defensely‡	2.02bn	2004	-	-	-	-	Citibank International
Baden-Wuerttemberg L-Fin‡	1bn	Nov 2007	(v)	99.59R	-	-	Société Générale
Cliscnt Français	990	Nov 2004	5.50	99.59R	5.681	+55(6)	Société Générale
Province of Quebec‡	300	Oct 2007	(F)	100.00	-	-	Morgan Stanley DW
SWISS FRANCS							
City of Stockholm(q)	100	Dec 2004	3.50	102.10	-	-	Deutsche Morgan G'ell
CCCMT 1, 97-8, *Class A(e)*	*1bn*	*Nov 2002*	*3.25*	*100.00R*	*3.250*	*-7(swaps)*	*CSFB*
ITALIAN LIRE							
Deutsche Finance(f)(o)‡	300bn	Nov 2009	(g)	102.125	-	-	Deutsche Morgan G'ell
Petrobras	280bn	Nov 2007	(e)	99.00R	7.88	+146(6¾%-07)	Chase Manhattan Intl
Norddeutsche Landesbank	300bn	Nov 2000	5.375	101.038	4.994	-	ML Bank Luxembourg
Korea Electric Power Corp	200bn	Oct 2000	6.25	99.45R	6.458	-	Cariplo/SBCWDR
European Inv'ment Bank(j)‡	750bn	Dec 2007	(G1,J)	100.245	-	-	BCI/Cariplo/JP Morgan
LUXEMBOURG FRANCS							
Banque Int'le à Luxembourg	2bn	Dec 2003	5.50	102.15	5.06	-	BIL
Cregem International Bank(k)	2bn	Apr 2004	5.50	102.15	5.10	-	BIL
NEW ZEALAND DOLLARS							
New Sth Wales Tsy Corp	100	Nov 2000	7.25	100.875	6.917	-	TD Securities
GREEK DRACHMA							
Crédit Local de France(f)	15bn	Nov 2002	9.00	100.00R	9.000	-	Paine/Webber Intl(UK)
Bayerische Hypo	10bn	Nov 1999	9.50	99.78R	9.626	-	Morgan Stanley DW

Final terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¶With equity warrants. ★Unlisted. (Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion price: NT$49.12. FX: 30.23NT$/US$. Redemption price: 134.82%. Callable from Nov 99, subject to 145% hurdle, at accreted value. Greenshoe: $15m. b) Callable & puttable on 24/10/00 & 02 at par. b1) 9¾% to 24/10/00, then 10½% to 02, then 10½%. c) 3-mth Pibor +25bp. d) 6½% to 17/3/99, then 5¾%. Short 1st & last coupons. e) 10% to 5/11/99, then 6¾%. f) Callable on coupon dates from 6/11/98 at par. g) Exchangeable into Lukoil GDRs at $177.78. Redemption: 153.314%. Callable from 3/11/00, subject to 155% hurdle, at accreted value. h) Callable & puttable on 24/10/03 at 99.6125%. i) Over interpolated yield. j) Fungible with Euro1.2bn, L$2bn and L7500m upon Essu. k) Conversion price: BR5,900. FX: 20.6242BR/DM. Callable from 30/10/00 at par. Greenshoe: DM50m. l) Long 1st coupon. m) Spread call provision. Event risk put options. n) Citibank Credit Card Master Trust. Backed by US$ denominated US originated credit card receivables. Legal maturity: 26/11/04. n1) Class B: $R64m, 9½%, 100.275R. o) Average life: 2.66 yrs. Quarterly coupons. p) Motor Vehicle Funding. Legal maturity: Sep 01. Av life: 1.09 yrs. p1) 1-mth Libor +17bp. q) Exchangeable into Zurich Insurance registered shares at SFr770.47. FX: 1.4835Sfr/$. Callable from 17/11/00 at par. r) Deffenbacher Pfandbrief. s) Short 1st coupon. t) Redeemed in US$. u) Issuers option to convert from Nov 98 to 3-mth Libor +25bp. v) 4-tranche deal backed by French commercial properties. w) Tec-10 -90bp. x) Fungible with $2m. Plus 123 days accrued. y) Revolving Home Equity Loan Asset Backed Certs. Legal maturity: Sep 2027. Av life: 3.7 yrs. y1) 1-mth Libor +18bp. z) Redeemed at par + performance of programme designed by Bankers Trust. A) 3-mth Libor flat. B) 3-mth Libor +12½bp. C) 3-mth Libor +80bp. D) 2 Medical tranches of $45m. D1) 1-mth Libor -6bp. E) Fungible with $150m. Plus 181 days accrued. F) 5% to 23/10/01, then Tec-10 -112bp. G) L225bn launched Oct 14 & 17 was increased to L300bn. G1) 10¼% to 14/12/99, then 19% - 2 x 12-mth Libor. H) Redeemed in 2. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Oct 24		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4527	+0.0994	430 - 624	20.5484	20.2821	20.3912	3.6	20.2738	3.5	19.8421	3.0	102.3
Belgium	(BFr)	59.9081	+0.2684	551 - 571	60.1680	59.3500	59.7372	3.4	59.3936	3.4	58.1282	3.0	101.9
Denmark	(DKr)	11.0622	+0.0508	572 - 672	11.1141	10.9569	11.0308	3.4	10.972	3.3	10.7705	2.8	100.9
Finland	(FM)	8.6967	+0.0522	886 - 047	8.7320	8.6010	8.6889	3.6	8.6189	3.6	8.4488	2.8	81.2
France	(FFr)	9.7355	+0.0451	305 - 406	9.7798	9.6466	9.705	3.6	9.6461	3.7	9.4371	3.1	105.2
Germany	(DM)	2.9058	+0.0133	045 - 071	2.9202	2.8777	2.8968	3.7	2.8794	3.6	2.8172	3.0	102.8
Greece	(Dr)	456.257	+1.837	998 - 577	458.195	452.301	457.735	-3.9	460.267	-3.5	470.044	-3.0	65.4
Ireland	(I£)	1.1177	+0.0068	164 - 190	1.1190	1.1098	1.1168	0.0	1.1147	1.1	1.1006	1.6	87.2
Italy	(L)	2835.08	+8.59	361 - 836	2850.27	2813.78	2834.16	0.4	2830.2	0.7	2792.99	1.5	76.2
Luxembourg	(LFr)	59.9081	+0.2684	551 - 571	60.1680	59.3500	59.7372	3.4	59.3936	3.4	58.1282	3.0	101.9
Netherlands	(Fl)	3.2743	+0.0153	729 - 757	3.2894	3.2431	3.2698	3.8	3.2441	3.7	3.1743	3.1	101.2
Norway	(NKr)	11.6710	+0.0281	647 - 773	11.7515	11.5875	11.6366	3.5	11.5756	3.3	11.3829	2.7	99.7
Portugal	(Es)	296.738	+1.379	567 - 912	297.087	293.172	295.298	1.8	294.252	2.0	289.089	2.2	91.8
Spain	(Pta)	245.001	+1.176	877 - 125	246.110	242.860	244.579	2.1	243.678	2.2	239.405	2.3	78.9
Sweden	(SKr)	12.4242	-0.0023	163 - 321	12.4907	12.3437	12.3949	2.8	12.3409	2.7	12.1749	2.0	87.1
Switzerland	(SFr)	2.4033	+0.0053	017 - 048	2.4196	2.3859	2.3925	5.4	2.3713	5.3	2.2887	4.8	105.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	102.1
Ecu	-	1.4736	+0.0059	726 - 745	1.4814	1.4692	1.4701	2.9	1.4633	2.8	1.4389	2.5	-
SDR†	-	1.193298	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6332	+0.0035	326 - 338	1.6387	1.6291	-	-	-	-	-	-	-
Brazil	(R$)	1.7986	+0.0049	979 - 992	1.8018	1.7922	-	-	-	-	-	-	-
Canada	(C$)	2.2743	+0.0111	732 - 754	2.2792	2.2648	2.2674	3.7	2.2548	3.4	2.2108	2.8	84.3
Mexico	(New Peso)	12.7811	+0.1371	666 - 956	12.7956	12.6729	12.904	-11	13.1507	-11	14.125	-10	-
USA	($)	1.6341	+0.0042	336 - 346	1.6370	1.6284	1.6319	1.6	1.628	1.5	1.6128	1.3	105.6
Pacific/Middle East/Africa													
Australia	(A$)	2.3300	+0.0106	284 - 316	2.3334	2.3072	2.3256	2.3	2.3157	2.5	2.2767	2.3	88.8
Hong Kong	(HK$)	12.6590	+0.0464	310 - 469	12.6671	12.5875	12.5129	12.0	12.8356	-6.2	13.0786	-3.5	-
India	(Rs)	59.2035	+0.1522	772 - 297	59.2780	59.0460	-	-	-	-	-	-	-
Israel	(Shk)	5.8163	+0.0462	068 - 257	5.8257	5.7830	-	-	-	-	-	-	-
Japan	(Y)	198.178	-0.264	074 - 277	199.760	197.580	197.021	7.0	194.746	6.9	185.208	6.5	128.8
Malaysia	(M$)	5.5396	+0.059	338 - 454	5.6009	5.4346	5.5494	-2.1	5.6732	-2.4	5.7172	-3.2	-
New Zealand	(NZ$)	2.6178	+0.0009	159 - 196	2.6292	2.6071	2.6195	-0.8	2.622	-0.6	2.629	-0.4	106.0
Philippines	(Peso)	57.6021	+1.37	394 - 648	58.6224	57.2950	58.4879	-18	59.5597	-18	64.918	-12	-
Saudi Arabia	(SR)	6.1294	+0.0159	271 - 317	6.1399	6.1094	6.1219	1.5	6.1081	1.4	6.0562	1.2	-
Singapore	(S$)	2.5827	+0.0091	795 - 859	2.5994	2.5606	2.5812	0.7	2.5762	1.0	2.5392	1.7	-
South Africa	(R)	7.7269	+0.0199	220 - 317	7.7317	7.6925	7.7799	-8.2	7.8764	-7.7	8.2507	-6.8	-
South Korea	(Won)	1519.47	+18.09	976 - 018	1521.92	1505.23	-	-	-	-	-	-	-
Taiwan	(T$)	49.6334	+0.3256	994 - 673	49.7406	49.4018	49.586	1.1	49.5005	1.1	49.1697	0.9	-
Thailand	(Bt)	62.9946	+0.7731	118 - 773	63.8660	61.9700	63.0056	-0.2	63.3462	-2.2	66.2139	-5.1	-

† Rates for Oct 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 24		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	12.5162	+0.0251	141 - 183	12.5690	12.4298	12.4952	2.0	12.4537	2.0	12.3037	1.7	102.1
Belgium	(BFr)	36.6800	+0.069	400 - 800	36.8110	36.4070	36.6052	1.8	36.484	1.8	36.044	1.7	102.1
Denmark	(DKr)	6.7696	+0.0137	668 - 706	6.7978	6.7218	6.7592	1.8	6.7399	1.8	6.6788	1.3	103.4
Finland	(FM)	5.3220	+0.0183	187 - 253	5.3422	5.2753	5.3121	2.2	5.2943	2.1	5.238	1.6	80.9
France	(FFr)	5.9578	+0.0123	565 - 590	5.9831	5.9176	5.947	2.2	5.9253	2.2	5.8518	1.6	104.6
Germany	(DM)	1.7783	+0.0036	780 - 785	1.7856	1.7655	1.7751	2.2	1.7688	2.1	1.747	1.8	102.8
Greece	(Dr)	279.210	+0.285	100 - 320	280.310	277.400	280.485	-5.5	282.725	-5.0	291.445	-4.4	65.0
Ireland	(I£)	1.4621	-0.0049	608 - 633	1.4705	1.4603	1.4612	0.7	1.4606	0.4	1.4554	-0.2	-
Italy	(L)	1734.95	+0.8	470 - 520	1742.75	1725.30	1736.69	-1.2	1738.53	-0.8	1731.88	0.2	75.9
Luxembourg	(LFr)	36.6800	+0.069	400 - 800	36.8110	36.4070	36.6052	1.8	36.484	1.9	36.044	1.7	102.1
Netherlands	(Fl)	2.0038	+0.0043	035 - 040	2.0121	1.9890	2	2.3	1.9929	2.2	1.9694	1.8	101.5
Norway	(NKr)	7.1422	-0.0042	405 - 438	7.1820	7.0948	7.1307	1.9	7.1109	1.8	7.0407	1.4	98.8
Portugal	(Es)	180.980	+0.38	930 - 030	181.720	179.840	180.95	0.2	180.752	0.5	179.26	1.0	92.5
Spain	(Pta)	149.930	+0.335	900 - 960	150.510	148.850	149.889	0.5	149.665	0.7	148.45	1.0	78.7
Sweden	(SKr)	7.6031	-0.021	006 - 056	7.6360	7.5705	7.5954	1.2	7.581	1.2	7.5501	0.7	86.6
Switzerland	(SFr)	1.4707	-0.0008	702 - 712	1.4787	1.4633	1.466	3.8	1.4567	3.8	1.4191	3.5	105.2
UK	(£)	1.6341	+0.0042	336 - 346	1.6370	1.6284	1.6319	1.6	1.628	1.5	1.6128	1.3	101.4
Ecu	-	1.1090	-0.0018	086 - 093	1.1141	1.1040	1.1101	-1.2	1.1125	-1.3	1.1224	-1.2	-
SDR†	-	0.73290	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9995	-0.0004	994 - 995	0.9995	0.9994	-	-	-	-	-	-	-
Brazil	(R$)	1.1007	+0.0002	006 - 007	1.1007	1.1006	-	-	-	-	-	-	-
Canada	(C$)	1.3918	+0.0032	915 - 920	1.3936	1.3869	1.3894	2.1	1.385	1.8	1.3708	1.5	84.4
Mexico	(New Peso)	7.8215	+0.064	150 - 280	7.8280	7.8150	7.907	-13.1	8.0775	-19.1	8.7585	-12.0	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.4
Pacific/Middle East/Africa													
Australia	(A$)	1.4258	+0.0028	253 - 263	1.4263	1.4253	1.425	0.7	1.4224	1.0	1.4117	1.0	80.0
Hong Kong	(HK$)	7.7345	+0.0085	320 - 370	7.7420	7.7250	7.822	-13.6	7.8645	-7.8	8.1085	-4.8	-
India	(Rs)	36.2300	-	250 - 350	36.3000	36.2250	-	-	-	-	-	-	-
Israel	(Shk)	3.5593	+0.0191	546 - 640	3.5640	3.5366	-	-	-	-	-	-	-
Japan	(Y)	121.275	-0.475	250 - 300	122.360	120.900	120.725	5.4	119.625	5.4	114.85	5.3	127.8
Malaysia	(M$)	3.3900	+0.0275	875 - 925	3.4330	3.3300	3.4005	-3.7	3.4235	-4.0	3.545	-4.8	-
New Zealand	(NZ$)	1.6019	-0.0036	013 - 026	1.6026	1.6013	1.605	-2.3	1.6104	-2.1	1.6292	-1.7	-
Philippines	(Peso)	35.2500	+0.75	000 - 000	35.4000	35.0000	35.8385	-20.0	36.589	-15.2	40.2435	-14.2	-
Saudi Arabia	(SR)	3.7510	+0.0001	507 - 512	3.7512	3.7507	3.7514	-0.1	3.7521	-0.1	3.7552	-0.1	-
Singapore	(S$)	1.5805	+0.0016	790 - 820	1.5880	1.5675	1.5835	-2.3	1.5825	-0.5	1.5745	0.4	-
South Africa	(R)	4.7285	-	270 - 300	4.7300	4.7210	4.7872	-9.8	4.8381	-9.3	5.1155	-8.2	-
South Korea	(Won)	929.850	+8.7	700 - 000	930.000	924.800	-	-	-	-	-	-	-
Taiwan	(T$)	30.3735	+0.1215	820 - 350	30.5130	30.2800	30.3845	-0.4	30.408	-0.4	30.486	-0.4	-
Thailand	(Bt)	38.5500	+0.375	500 - 500	39.0500	38.0000	38.6075	-1.8	38.91	-3.7	41.05	-6.5	-

† SDR rate per $ for Oct 23. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 23: Base average 1990=100.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

October 24	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅝	3⅝	3⅞	4⅛	4⅝	6.00	2.75	-
week ago	4⅛	3⅞	4⅛	4¼	4⅛	6.00	2.75	-
France	3¼	3½	3⅝	3⅞	4⅛	3.30	-	4.75
week ago	3¼	3½	3⅝	3¾	4⅛	3.30	-	4.75
Germany	3⅝	3⅞	3¾	3⅞	4⅛	4.50	2.50	3.30
week ago	3¼	3⅞	3⅝	3⅞	4¼	4.50	2.50	3.30
Ireland	6¼	6¼	6⅜	6	5⅞	-	-	6.75
week ago	6¼	6¼	6⅜	6	5⅞	-	-	6.75
Italy	6¾	6⅝	6⅛	6¼	5⅞	7.75	6.25	6.02
week ago	6¾	6⅝	6⅛	6⅛	6⅛	7.75	6.25	6.02
Netherlands	3¼	3⅜	3¾	3⅞	4⅛	-	2.75	3.30
week ago	3⅜	3⅜	3¾	3⅞	4¼	-	2.75	3.30
Switzerland	1⅞	1⅞	2⅛	2¼	2⅜	-	1.00	-
week ago	1¾	1⅞	1⅞	2	2⅛	-	1.00	-
US	5½	5⅝	5¾	5⅞	5⅞	-	5.00	-
week ago	5⅝	5⅝	5¾	5⅞	5⅞	-	5.00	-
Japan	½	⅝	⅞	¾	⅝	-	0.50	-
week ago	⅝	⅝	½	⅞	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅞	5¾	6⅛	-	-	-
week ago	-	5⅝	5⅞	5¾	6⅛	-	-	-
US Dollar CDs	-	5.46	5.53	5.63	5.83	-	-	-
week ago	-	5.46	5.52	5.61	5.75	-	-	-
ECU Linked Ds	-	4⅛	4⅜	4⅜	4⅝	-	-	-
week ago	-	4⅛	4½	4⅝	4¾	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3¾	4⅛	-	-	-
week ago	-	3⅝	3⅝	3⅝	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅜ - 3¼	3⅞ - 3⅝	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 4	4⅜ - 4¼
Danish Krone	4⅛ - 3⅞	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞	4¼ - 4⅛	4⅝ - 4½
German Mark	3½ - 3¼	3½ - 3⅜	3½ - 3⅜	3⅝ - 3½	3⅞ - 3¾	4¼ - 4⅛
Dutch Guilder	3½ - 3¼	3½ - 3⅜	3⅜ - 3¼	3⅝ - 3½	3⅞ - 3¾	4¼ - 4⅛
French Franc	3⅜ - 3¼	3½ - 3⅜	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	4⅛ - 4
Portuguese Esc.	5⅝ - 5½	5⅝ - 5½	5½ - 5⅜	5⅜ - 5¼	5¼ - 5⅛	5⅛ - 5
Spanish Peseta	5⅛ - 4⅞	5⅛ - 5	5⅛ - 5	5⅛ - 5	5⅛ - 4⅞	5 - 4⅞
Sterling	7¼ - 7⅛	7¼ - 7⅛	7¼ - 7	7⅜ - 7¼	7½ - 7⅜	7⅝ - 7½
Swiss Franc	1⅞ - 1¾	2⅛ - 1⅞	2 - 1⅞	2⅛ - 2	2¼ - 2⅛	2½ - 2⅜
Canadian Dollar	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 4	4½ - 4⅜
US Dollar	5⅝ - 5½	5⅝ - 5½	5⅝ - 5½	5¾ - 5⅝	5⅞ - 5¾	6⅛ - 5⅞
Italian Lira	6¾ - 6½	6¾ - 6⅝	6¾ - 6⅝	6⅝ - 6½	6⅜ - 6¼	5⅞ - 5¾
Japanese Yen	½ - ⅜	½ - ⅜	⅝ - ½	⅝ - ½	½ - ⅜	⅝ - ½
Asian $Sing	3½ - 3	4¾ - 4⅝	4½ - 4¼	4⅜ - 4⅛	4¼ - 4	4¼ - 4

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.08	94.17	+1.42	94.17	94.11	173,203	552,891
Mar	94.01	94.13	-0.11	94.14	94.05	218,401	423,088
Jun	93.92	94.06	-0.11	94.07	93.97	192,072	347,330

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.03	95.05	-	95.08	95.02	638	4,455
Mar	95.04	95.10	+0.02	95.10	95.04	741	4,453
Jun	-	95.02	+0.04	95.02	-	94	384

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 24		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.47	16.25	4.851	1.866	4733	5.466	19.48	493.7	409.0	20.74	4.012	1.669	3.797	2.728	330.8	2.480
Denmark	(DKr)	54.15	10	8.801	2.627	1.010	2563	2.960	10.55	267.3	221.5	11.23	2.173	0.904	2.056	1.477	179.1	1.332
France	(FFr)	31.53	11.36	10	2.985	1.148	2912	3.363	11.99	303.8	251.7	12.76	2.469	1.027	2.336	1.678	203.6	1.514
Germany	(DM)	20.62	3.807	3.350	1	0.385	975.6	1.127	4.018	101.8	84.31	4.275	0.827	0.344	0.783	0.562	68.20	0.507
Ireland	(I£)	53.60	9.888	8.711	2.600	1	2537	2.930	10.44	264.8	219.2	11.12	2.150	0.895	2.035	1.462	177.3	1.318
Italy	(L)	2.113	0.390	0.343	0.103	0.039	100	0.116	0.412	10.43	8.642	0.438	0.085	0.035	0.080	0.058	6.990	0.052
Netherlands	(Fl)	18.30	3.378	2.973	0.887	0.341	865.8	1	3.564	90.32	74.82	3.794	0.734	0.305	0.695	0.499	60.52	0.450
Norway	(NKr)	51.33	8.478	8.342	2.490	0.958	2429	2.806	10	253.4	209.9	10.65	2.059	0.857	1.949	1.400	169.8	1.263
Portugal	(Es)	20.26	3.741	3.292	0.983	0.378	958.8	1.107	3.946	100	82.84	4.201	0.813	0.338	0.769	0.553	67.01	0.498
Spain	(Pta)	24.45	4.515	3.974	1.186	0.456	1157	1.337	4.764	120.7	100	5.071	0.981	0.408	0.928	0.667	80.89	0.601
Sweden	(SKr)	48.22	8.904	7.836	2.339	0.900	2282	2.636	9.394	238.0	197.2	10	1.934	0.805	1.831	1.316	159.5	1.186
Switzerland	(SFr)	24.93	4.603	4.051	1.209	0.465	1180	1.362	4.856	123.1	101.9	5.170	1	0.416	0.946	0.680	82.46	0.613
UK	(£)	59.91	11.06	9.736	2.906	1.118	2835	3.274	11.67	295.7	245.0	12.42	2.403	1	2.274	1.634	198.2	1.473
Canada	(C$)	26.34	4.864	4.281	1.278	0.491	1247	1.440	5.132	130.0	107.7	5.463	1.057	0.440	1	0.718	87.14	0.648
USA	($)	36.68	6.770	5.958	1.778	0.684	1735	2.004	7.142	181.0	149.9	7.603	1.471	0.612	1.392	1	121.3	0.902
Japan	(Y)	30.23	5.582	4.913	1.466	0.564	1431	1.652	5.889	149.2	123.6	6.268	1.213	0.505	1.148	0.825	100	0.744
Ecu	-	40.66	7.507	6.607	1.972	0.759	1924	2.222	7.921	200.7	166.3	8.432	1.631	0.679	1.544	1.109	134.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.5674	0.5640	-0.0033	0.5680	0.5618	38,664	61,091
Mar	0.5648	0.5668	-0.0033	0.5680	0.5648	38	2,560
Jun	-	0.5693	-0.0033	-	-	2	2,618

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.6866	0.6857	-0.0008	0.6874	0.6796	23,204	42,013
Mar	0.6857	0.6919	-0.0007	0.6932	0.6857	50	2,150
Jun	-	0.6980	-0.0007	-	0.6930	10	285

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	0.8267	0.8265	-	0.8334	0.8230	35,129	84,008
Mar	0.8384	0.8377	-	0.8435	0.8355	81	892
Jun	-	0.8491	-	0.8492	-	60	230

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Dec	1.6294	1.6304	+0.0010	1.6336	1.6252	5,744	36,463
Mar	-	1.6250	+0.0010	1.6280	1.6230	7	258
Jun	-	1.6192	+0.0010	1.6210	1.6180	47	71

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.630	1.34	1.84	2.51	1.18	1.98	2.74
1.640	0.80	1.49	2.11	1.78	2.51	3.30
1.650	0.57	1.12	1.72	2.44	-	-

Previous day's vol., Calls 3,204 Puts 7,000 . Prev. day's open int., Calls 27,348 Puts 24,029

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
0.555	1.33	1.60	-	0.18	0.33	0.48
0.560	0.95	1.25	1.54	0.27	0.45	0.65
0.565	0.63	0.95	1.25	0.42	0.65	0.95

Previous day's vol., Calls 2,402 Puts 582 . Prev. day's open int., Calls 12,712 Puts 35,419

UK INTEREST RATES

LONDON MONEY RATES

Oct 24	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 6¾	7¼ - 6⅞	7⅜ - 7¼	7⅜ - 7¼	7½ - 7⅜	7⅝ - 7½
Sterling CDs	-	-	7¼ - 7⅛	7⅜ - 7¼	7⅜ - 7¼	7½ - 7⅜
Treasury Bills	-	-	7⅛ - 6⅞	7⅛ - 7	-	-
Bank Bills	-	-	7 - 6⅞	7⅛ - 7	7⅜ - 7¼	-
Local authority deps.	6⅞ - 6¾	7 - 6⅞	7⅛ - 7	7⅜ - 7⅛	7⅜ - 7¼	7½ - 7⅜
Discount Market deps	7 - 6⅞	7 - 6⅞	-	-	-	-

UK clearing bank base lending rate 7 per cent from Aug 7, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Oct 24, 6.8515pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 30, 1997. Agreed rate for period Oct 26, 1997 to Nov 25, 1997, Scheme III 8.54pc. Reference rate for period Aug 30, 1997 to Sep 30, 1997, Schemes IV & V 7.234pc. Finance House Base Rate 7½pc from Oct 1, 1997

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 24	Oct 17		Oct 24	Oct 17
Bills on offer	£100m	£100m	Top accepted rate	6.8590%	6.8580%
Total of applications	£562m	£493m	Ave. rate of discount	6.8515%	6.9377%
Total allocated	£100m	£100m	Average yield	7.0741%	7.0598%
Min. accepted bid	£98.265	£98.265	Offer at next tender	£100m	£100m
Allotment at min. level	53%	24%	Min. accept. bid 28 days	-	-

■ Pound in New York

Oct 24	—Close—	—Prev. close—
£ spot	1.6335	1.6325
1 mth	1.6313	1.6303
3 mth	1.6270	1.6263
1 yr	1.6110	1.6104

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Markets page in today's edition.

BASE LENDING RATES

	%		%		%
Adam & Company	7.00	Exeter Trust Limited	8.00	●Singer & Friedlander	7.00
Allied Irish Bank (GB)	7.00	Financial & Gen Bank	8.00	●Smith & Williamson Secs	7.00
●Henry Ansbacher	7.00	●Robert Fleming & Co	7.00	Sun Banking Corp Ltd	7.00
Banco Bilbao Vizcaya	7.00	●Guinness Mahon	7.00	TSB	7.00
Bank of Cyprus	7.00	Habib Bank AG Zurich	7.00	United Bank of Kuwait	7.00
Bank of Ireland	7.00	●Hambros Bank	7.00	Unity Trust Bank Plc	7.00
Bank of India	6.75	Heritable & Gen Inv Bk	7.00	Whiteaway Laidlaw	7.00
Bank of Scotland	7.00	C. Hoare & Co	7.00	Yorkshire Bank	7.00
Barclays Bank	7.00	Hongkong & Shanghai	7.00		
Brit Bk of Mid East	7.00	Investec Bank (UK) Ltd	7.00		
●Brown Shipley & Co Ltd	7.00	Julian Hodge Bank	7.00		
Citibank NA	7.00	●Leopold Joseph & Sons	7.00		
Clydesdale Bank	7.00	Lloyds Bank	7.00		
The Co-operative Bank	7.00	Midland Bank	7.00		
Coutts & Co	7.00	NatWestminster	7.00		
Cyprus Popular Bank	7.00	●Rea Brothers	7.00		
Duncan Lawrie	7.00	Royal Bk of Scotland	7.00		
		Scottish Widows Bank	7.00		

● Members of London Investment Banking Association
* In administration

OTHER STATISTICS

STOCK INDICES

	Oct 24	Oct 23	Oct 22	Oct 21	Oct 20	— 1997 — High	Low	Since comp. High	Low
FTSE 100	4970.2	4981.5	5148.8	5225.9	5211.0	5330.8	4056.6	5330.8	986.9
FTSE 250	4838.7	4827.0	4918.8	4918.6	4906.5	4983.8	4386.2	4983.8	1379.4
FTSE 250 ex IT	4865.9	4856.9	4941.3	4942.4	4933.8	4985.8	4380.7	4985.8	1378.3
FTSE 350	2410.4	2417.7	2487.7	2517.6	2511.1	2546.4	2017.8	2546.4	664.5
FTSE SmallCap	2380.44	2377.47	2405.45	2402.14	2397.97	2406.29	2178.29	2406.29	1363.79
FTSE SmallCap ex IT	2383.94	2383.08	2402.72	2398.62	2392.39	2402.72	2128.02	2402.72	1363.79
FTSE All-Share	2361.32	2367.80	2433.82	2460.96	2454.50	2492.41	1986.78	2492.41	61.92
FTSE Fledgling	1297.91	1295.88	1311.73	1310.92	1309.40	1346.52	1223.48	1346.52	31.14
FTSE Eurotrack 100	2529.84	2624.99	2713.78	2679.86	2648.92	2794.80	1893.60	2794.80	900.45
FTSE Eurotrack 200	2543.36	2627.84	2713.66	2712.98	2682.37	2785.37	1947.11	2785.37	938.82
FT 30	3316.5	3358.3	3408.6	3416.1	3411.2	3430.3	2678.89	3430.3	49.4
FT Govt Securities	100.14	100.11	99.59	99.64	99.75	101.89	93.31	127.40	49.18
FT Fixed Interest	132.74	132.65	132.17	132.29	132.37	133.54	113.86	133.87	50.53
FTSE Gold Mines	1376.02	1479.42	1469.30	1450.82	1431.40	2074.81	1270.14	2074.81	922.18

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	Low	Stock	Closing price p	+or-
-	Nil	10/11	38½pm	26½pm	Alvis Units	27pm	
560	Nil	4/11	137pm	108½pm	Berkeley Group	115pm	-1½
5	Nil	28/11	1¼pm	½pm	Coneid Coal	½pm	
200	Nil	31/10	52½pm	37½pm	Dawn Til Dusk	40pm	
45	Nil	14/11	5pm	5pm	Jourdan T	5pm	
265	Nil	12/11	32½pm	27½pm	Lavendon	32½pm	+5
115	Nil	11/11	13½pm	12pm	Quicks	12½pm	

pm premium.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
*	F.P.	422.0	180½	152½	Aggreko	161½	-1	W5.5	2.0	2.7	22.6
-	F.P.	0.74	17½	16½	†Buckland Inv	17½		-	-	-	-
-	F.P.	0.06	12	6	†Buckland Inv Wt	10		-	-	-	-
-	F.P.	99.0	99½	94	Cairngrm Demut IT	99	+1	-	-	-	-
-	F.P.	-	23½	15½	Cairngrm Wts	23	+½	-	-	-	-
155	F.P.	17.1	176½	162½	Latchways	171	+1	-	-	-	-
§110	F.P.	9.35	93½	87½	Leicester City	93½	+1	-	-	-	-
*	F.P.	95.5	99½	70½	†Metalrussia	95½	-2	-	-	-	-
§115	F.P.	18.6	170½	140	†NSB Retail Sys	170½		L1.15	1.6	0.8	88.2
250	F.P.	492.0	292½	244	Newsquest	248	-2	W5.4	3.0	2.7	15.1
*	F.P.	2,158	504½	450	Northern Rock	486	+7½	L9.05	2.8	2.3	19.2
70	F.P.	27.9	63½	53	Nott'ham Forest	61½	+1	-	-	-	-
-	F.P.	667.2	2462	2410	Nycomed Am NV	2417½	-17½	15.0	2.8	0.8	54.4
§245	F.P.	132.8	288½	245	SHL Group	288½		LW4.5	-	2.0	-
§148	F.P.	5.78	192½	152½	†Solitaire	192½		R6.0	1.2	3.9	14.3
§147	F.P.	159.1	172½	157½	Ultraframe	171½	+7	R3.5	2.1	2.8	23.0
§110	F.P.	57.4	117½	111½	Xaar	112½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

BANK RETURN

BANKING DEPARTMENT	Wednesday October 22,1997	Increase or decrease for week
	£	£
Liabilities		
Capital	14,553,000	
Public deposits	871,901,033	-383,568,028
Bankers deposits	2,606,740,679	-52,085,878
Reserve and other accounts	3,310,654,059	+37,076,307
	6,803,848,771	-398,577,599
Assets		
Government securities	1,386,347,825	+4,000,000
Advance and other accounts	4,309,097,072	+437,246,150
Premise, equipment and other secs	1,035,096,935	-830,914,291
Notes	3,190,744	-8,902,711
Coin	114,196	-6,747
	6,803,848,771	-398,577,599
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	22,106,809,256	+8,902,711
Notes in Banking Department	3,190,744	-8,902,711
	22,110,000,000	
Assets		
Other Government securities	18,748,873,355	-842,771,853
Other Securities	8,361,126,645	+842,771,853
	22,110,000,000	

TRADITIONAL OPTIONS

First Dealings	Oct 20	Expiry	Jan 22
Last Dealings	Oct 31	Settlement	Jan 29

Calls: Betacom, Dans Pet, Elect Boutique, IES, Pentex Energy, Queens Moat.

FTSE GOLD MINES INDEX

	Oct 24	% chg since 31/12/96	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (33)	1376.02	-34.8	37.37	100.00	2.14	-	1985.11	1270.14
■ Regional Indices								
Africa (15)	1363.86	-35.9	8.26	21.81	3.53	23.58	2502.51	1224.90
Australasia (6)	1418.86	-36.0	3.75	9.91	2.74	17.28	2217.80	1336.10
North America (12)	1390.47	-17.8	25.86	68.28	0.97	51.88	1838.77	1244.23

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UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas 4⅝pc 1998‡‡		115⅝xd	—	800	Ap27 Oc27	20.10	1753
Exch 9¾pc 1998		100⅞	-.1	3,550	Jy19 Ja19	10.7	1273
Treas 7¼pc 1998‡‡		100⅛	—	8,150	Sa30 Mr30	22.9	1788
Treas 15½pc '98‡‡		107⅞	-.1	835	Mr30 Sa30	22.9	1308
Exch 12pc 1998		104⅜	-.1	3,909	My20 Nv20	9.5	1258
Treas 9½pc 1999‡‡		102⅝	-.1	1,900	Jy15 Ja15	4.7	1347
Treas Flg Rate 1999‡‡		100⅛	—	5,700	9Mr.JeSeDe	29	4945
Exch 12¼pc 1999		106⅝	-.1	3,050	Sa26 Mr26	22.9	1264
Treas 10½pc 1999		105⅝	-.1	1,252	Nv10 My19	6.5	1286
Treas 8pc 1999‡‡		99⅞	—	6,950	Fe16 Au10	31.7	3635
Conv 10¼pc 1999		106⅝	-.1	1,798	My22 Nv22	13.5	1242
Treas 8½pc 2000	‡	108⅛	-.1	100	Jy28 Ja28	17.7	-
Conv 9pc 2000‡‡		104⅝	-.1	5,358	Se3 Mr3	22.8	1244
Treas 13pc 2000		114⅜	-.2	3,171	Ja14 Jy14	9.7	1269
Treas 14pc 1998-1		103⅞	-.1	970	Nv22 My22	13.5	1306
Treas 8pc 2000‡‡		103⅝	-.2	9,800	Jn7 De7	28.5	4848
Treas Flg Rate 2001		100⅛	—	3,000	9Oc.JaApJy	7.7	-
Treas 10pc 2001		109⅛	-.2	4,406	Au25 Fe25	14.8	1260
Conv 9¾pc 2001‡‡	‡	109⅜	-.2	3	Ja12 Jy12	3.7	-
Conv 9¾pc 2001	‡	109⅝	-.2	35	Fe16 Au10	31.7	-
Treas 7pc 2001‡‡		100⅞	-.2	12,750	My6 Nv6	24.4	3031
Exch 12pc 1999-2	‡	105⅝	-.1	105	Jy22 Ja22	11.7	-
Conv 10pc 2002	‡	112⅜	-.2	21	Oc11 Ap11	6.10	-
Treas 7pc 2002‡‡		101⅛	-.2	9,000	De7 Je7	29.5	-
Five to Fifteen Years							
Conv 9½pc 2002	‡	110⅜	-.2	2	De14 Je14	5.6	-
Treas 9¾pc 2002		112⅜	-.2	5,527	Fe27 Au27	15.8	1349
Exch 9pc 2002	‡	109⅞	-.2	63	My19 Nv19	8.5	-
Conv 9¾pc 2003‡‡	‡	113⅝	-.2	11	Nv7 My7	25.4	-
Treas 8pc 2003‡‡		105⅞	-.3	8,600	Je10 De10	30.5	2016
Treas 13¾pc 2000-3	‡	118⅛	-.2	53	Ja25 Jy25	18.7	-
Treas 10pc 2003		115⅞	-.3	2,503	Mr8 Se8	28.8	1281
Treas 11½pc 2001-4		113⅞	-.2	1,820	Se19 Mr19	10.9	1280
Treas 10pc 2004	‡	117⅞	—	23	Nv18 My18	8.5	-
Funding 3½pc 1999-4		90⅞	0.1	543	Ja14 Jy14	3.7	1274
Conv 9½pc 2004		118xd	-.3	3,412	Ap25 Oc25	20.10	1248
Treas 6¾pc 2004‡‡		109⅛	-.3	6,500	My26 Nv26	15.5	3641
Conv 9½pc 2005		118⅞	-.2	4,842	Oc18 Ap18	13.10	1247
Exch 10½pc 2005	‡	123⅞	-.2	23	Mr20 Se20	11.9	-
Treas 12½pc 2003-5		128⅝	-.3	2,200	My21 Nv21	12.5	1285
Treas 8½pc 2005‡‡		111⅞	-.3	10,373	Je7 De7	28.6	4946
Conv 9¾pc 2006	‡	121⅝	-.2	6	My15 Nv15	6.5	-
Treas 7½pc 2006‡‡		106⅞	-.3	11,700	Je7 De7	29.5	1148
Treas 7¾pc 2006‡‡		107⅞	-.3	4,000	Mr8 Se8	28.8	2300
Treas 8pc 2002-6‡‡		104⅞	-.1	2,058	Ap5 Oc5	25.9	1304
Treas 11¾pc 2003-7		121⅞	-.3	3,150	Jy22 Ja22	11.7	1283
Treas 8½pc 2007‡‡		113⅝	-.3	7,397	Ja16 Jy16	7.7	1338
Treas 7¼pc 2007‡‡		105⅜	-.3	7,000	Je7 De7	29.5	-
Treas 13½pc 2004-8	‡	135⅛	-.2	95	Se26 Mr26	22.9	-
Treas 9pc 2008‡‡		119	-.2	5,621	Ap13 Oc13	6.10	1349
Treas 8pc 2009		111⅞	-.1	3,450	Mr25 Se25	18.9	1336
Treas 6¼pc 2010‡‡		97⅞	-.1	4,750	Nv25 My25	15.5	4632
Conv 9pc Ln 2011‡‡		121⅝	-.1	5,273	Jy12 Ja12	3.7	1245
Treas 9pc 2012‡‡		122⅞xd	-.1	5,360	Fe6 Au6	6.10	1701
Treas 5½pc 2008-12‡‡		91⅞	0.1	1,000	Mr10 Se10	1.9	1330
Treas 7¾pc 2012-15‡‡		110⅜	-.1	800	Jy26 Ja26	17.7	1332
Over Fifteen Years							
Treas 8pc 2013‡‡		114⅛	—	6,100	Mr27 Se27	22.9	2229
Treas 8pc 2015‡‡		115⅞	0.1	13,787	Je7 De7	29.5	4992
Treas 8¾pc 2017‡‡		124⅞	0.5	7,550	Fe25 Au25	14.8	1982
Exch 12pc 2013-17	‡	153⅛	-.1	57	Ja12 De12	3.8	-
Treas 8pc 2021‡‡		118⅞	0.3	16,500	Je7 De7	29.5	-
Undated							
Consols 4pc		58⅛	-.5	359	Au1 Fe1	28.7	1239
War Loan 3½pc‡‡		53⅞	0.4	1,909	Je1 De1	15.5	1352
Conv 3½pc '61 Aft.		69½	-.5	115	Ap1 Oc1	22.9	1243
Treas 3pc '66 Aft.		42⅞	0.3	58	Ap5 Oc5	28.9	1324
Consols 2½pc		37⅞	0.3	275	5JaApJyOc	29.9	1236
Treas. 2½pc		37⅞	0.6	475	Ap1 Oc1	22.9	1316
Index-Linked	(b)						
2½pc '99	‡	187⅛	0.2	2	My22 Nv22	13.5	-
2½pc '01	(78.3)	193⅛	0.1	2,150	Mr24 Se24	15.9	1316
2½pc '03	(78.8)	190⅛	0.2	2,400	My20 Nv20	9.5	1317
4⅝pc '04‡‡	(135.6)	123⅞xd	0.3	1,150	Ap21 Oc21	13.10	1265
2pc '06	(69.5)	208⅞	0.5	2,500	Ja19 Jy19	10.7	1314
2½pc '09	(78.8)	185⅛	0.6	2,625	My20 Nv20	8.5	1318
2½pc '11	(74.6)	193⅜	0.8	3,100	Fe23 Au23	14.8	1319
2½pc '13	(89.2)	160⅞	1.0	3,750	Fe16 Au16	7.8	1320
2½pc '16	(81.6)	173⅛	1.2	3,825	Ja26 Jy26	17.7	1321
2½pc '20	(83.0)	167⅞	1.4	3,700	Ap16 Oc16	13.10	1322
2½pc '24‡‡	(97.7)	140⅞	1.6	3,850	Ja17 Jy17	8.7	1323
4⅛pc '30‡‡	(135.1)	137⅞	1.7	1,300	Ja16 Jy22	11.7	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for February 1997: 155.0 and for September 1997: 159.3.

Other Fixed Interest

	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009	126⅞	-.2	100	Mr24 Se24	24.3	-
B'ham 11½pc 2012	140½xd	—	45	My15 Nv15	20.10	1837
Leeds 13½pc 2006	144½	0.7	40	Ap1 Oc1	10.9	3146
Liverpool 3½pc Irred	50	—	5	1ApJyOcJa	1.8	-
LCC 3pc '20 Aft	43	—	25	1MrJeSeDe	1.5	-
Manchester 11½pc 2007	131½xd	—	0	Ap25 Oc25	29.9	3275
Met. Wtr. 3pc 'B'	85	—	25	Mr1 Se1	1.9	3361
N'wide Anglia 3⅞pc 2021	153⅝	1.2	60	Ja30 Jy30	16.6	3465
4⅛pc IL 2024	154	1.2	50	Au28 Fe28	14.7	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis. ‡ Indicative price.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Cont.

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Notes Price ch'ge Wk% Div net Div cov. Dividends paid Mkt cap'ln Last xd City line

Approved by the Inland Revenue

[illegible]

Net asset values supplied by Micropal Securities Limited as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading Systems ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
◆ Figures or report awaited
♣ Rule 2.14(a)(v) Overseas incorporated companies listed on an approved exchange.
Free annual/interim report available, see details below.
‡‡ Rule 4.2(a) Main Incorporated non-listed companies.
‖ Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♦ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Costs. d Assumed dividend. e Assumed dividend after scrip issue. f Yield includes a special payment. g Earnings based on preliminary figures. h Dividend excludes 4 special payment. i Indicated dividend: cover relates to previous dividend. j Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. k Dividend based on prospectus or other official estimates for 1996. l Estimated annualised dividend, cover based on latest annual earnings. m Dividend based on prospectus or other official estimates for 1997. n Dividend based on prospectus or other official estimates for 1997-98. o Dividend is paid in whole or part as a PID (Foreign Income Dividend). q Gross. r Forecast annualised dividend, cover based on prospectus or other official estimates. Vi Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

x Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1997. U Dividend based on prospectus or other official estimates for 1996. ‖ Estimated annualised dividend, cover based on latest annual earnings.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Cambury Inns Ord & Wrnts (AIM), Creative Pkgs (Med), Latchways (SpSv). Deletions: Costain (BldM), Johnson Fry 2nd Utis Ord & Zero Prf (InvT), Inspirations Ord & 7.7% Prf (LeisH).

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To order, call 0121 200 4678.
Reports published by ShareFinder.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

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Offshore Funds and Insurances

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American Phoenix Investment Portfolios (u)

[illegible]

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav(u)

Frontrunner I (u)

GT Global

HSBC Investment Funds Luxembourg SA (u)

Morgan Stanley Sicav - Contd.

Nikko Global Umbrella Fund

ACM Offshore Funds - Contd.

Credit Suisse Asset Mngmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Templeton International Ltd

Van Kampen American Capital Navigator Funds

"WINTERTHUR" Fund Mngmt Co (Lux) SA

WP Stewart Global Growth Fund

World Trust Fund

OFFSHORE INSURANCES

Aberdeen International Ltd

Hamlet Hse, PO Box 237, St Peter Port, Gsy 01481 727068

Albany International Assurance Ltd

St Mary's, Castletown, Isle of Man 01624 823262

Friends Provident International

Irish Life International Ltd

Lower Abbey Street, Dublin 1 3531 7041500

Isle of Man Assurance Ltd

IOMA House, Prospect Hill, Douglas, IoM 01624 681200

Labrow International Group

Midland Life International Ltd

20-22 Lower Hatch St, Dublin 2 00 3531 662 5600

Old Mutual Guernsey

PO Box 121, St Peter Port, Guernsey 01481 726726

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

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OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 24 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Oct 24 / Frs.)

[illegible]

CZECH REP (Oct 24 / Koruna)

[illegible]

DENMARK (Oct 24 / Kr)

[illegible]

FINLAND (Oct 24 / Mkka)

[illegible]

FRANCE (Oct 24 / Frs.)

[illegible]

GERMANY (Oct 24 / Dm.)

[illegible]

GREECE (Oct 24 / Drachma)

[illegible]

ITALY (Oct 24 / Lira)

[illegible]

NETHERLANDS (Oct 24 / Fl.)

[illegible]

NORWAY (Oct 24 / Kroner)

[illegible]

POLAND (Oct 24 / Zloty)

[illegible]

PORTUGAL (Oct 24 / Escudo)

[illegible]

SPAIN (Oct 24 / Pta.)

[illegible]

SWEDEN (Oct 24 / Kronor)

[illegible]

SWITZERLAND (Oct 24 / Frs.)

[illegible]

TURKEY (Oct 24 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Oct 24 / Yen)

[illegible]

HONG KONG (Oct 24 / H.K.$)

[illegible]

INDONESIA (Oct 24 / Rupiah)

[illegible]

MALAYSIA (Oct 24 / MYR)

[illegible]

NEW ZEALAND (Oct 24 / NZ $)

[illegible]

SINGAPORE (Oct 24 / S$)

[illegible]

AUSTRALIA (Oct 24 / AustS)

[illegible]

SOUTH KOREA (Oct 24 / Won)

[illegible]

TAIWAN (Oct 24 / TW $)

[illegible]

THAILAND (Oct 24 / Baht)

		+/−	High	Low	Yld	P/E
AdvInf	210	−22	*362	132	2.8	—
BgkBkF	198	−2	314	130	2.3	...
BgkLdF	4.90	...	38	5.90	....	4.9
DSlamF	22	−.60	05	12	9.1	3.3
KrTh F	18.50	−1.25	86	18.25	8.4	—
LndHsF	36.50	−6	154.94	28.23	13.7	—
PhThaF	40	—	110	23.50	7.9	5.7
SmCemF	440	−50	1,012	167	4.5	8.7
SiamCi	97xr	−5	190.80	65.70	8.2	...
SwCBkF	98.50	−.50	274	78.50	7.6	4.6
TeleAs	24.70	−2.75	64	23.50	—	42.7
ThFrmF	102	−2	234	90	5.9	7.1

AFRICA

SOUTH AFRICA (Oct 24 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Oct 24 / Can $) 4 pm close

[illegible]

MONTREAL (Oct 24 / Can $) 4 pm close

[illegible]

Prices supplied by Extel, part of FT information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. § Dealings suspended, xd Ex dividend, xc Ex scrip issue, xr Ex rights, xa Ex all. † Priced in US $.

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 24 1997 US Dollar Index	%chg since 31/12/96	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/96	Gross Div. Yield	THURSDAY OCTOBER 23 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	209.61	−5.5	190.19	160.89	193.79	198.78	7.0	3.86	214.48	195.09	165.07	197.99	203.00	243.87	208.61	218.14
Austria (24)	202.58	6.7	183.79	155.28	187.27	187.21	23.2	1.75	201.57	183.34	155.12	185.97	185.92	213.59	175.14	180.92
Belgium (27)	238.10	4.6	216.04	182.53	220.13	215.26	20.7	3.20	239.88	218.00	184.46	221.14	216.28	261.11	219.71	220.89
Brazil (30)	276.84	46.0	251.19	212.22	256.94	580.90	54.8	1.30	283.48	257.85	218.17	261.55	574.25	322.44	178.94	183.97
Canada (123)	223.66	17.8	202.93	171.45	206.79	225.41	19.8	1.68	225.47	205.08	173.82	208.03	226.71	233.66	178.27	179.71
Denmark (32)	416.65	18.4	378.05	319.40	385.20	393.62	35.9	1.33	414.31	376.84	318.85	382.26	380.69	429.78	327.98	332.26
Finland (26)	399.00	38.0	307.58	259.87	313.41	378.63	59.4	1.64	338.65	308.02	260.62	312.45	376.94	348.43	218.01	220.10
France (94)	226.32	5.7	205.35	173.49	209.23	211.51	21.2	2.52	227.28	206.72	174.91	209.70	211.97	248.23	200.71	201.07
Germany (58)	224.74	18.9	203.91	172.28	207.77	207.77	36.5	1.39	221.55	201.52	170.51	204.41	204.41	248.67	179.31	179.68
Hong Kong, China (66)	379.72	−25.1	344.53	291.09	351.05	377.06	−25.1	4.20	356.89	324.82	274.66	329.29	354.01	580.03	356.89	468.40
Indonesia (27)	118.63	−48.0	107.64	90.94	109.67	260.17	−21.3	2.62	118.98	108.22	91.56	109.77	282.76	254.90	117.56	207.49
Ireland (17)	382.28	18.2	346.87	293.06	353.48	368.45	34.8	2.63	382.63	348.03	294.47	353.03	367.54	394.88	309.70	309.70
Italy (53)	110.65	32.5	100.39	84.82	102.29	143.37	51.2	1.88	110.99	100.96	85.42	102.41	143.75	115.27	75.44	77.32
Japan (484)	114.15	−11.6	103.57	87.51	105.53	87.51	−7.6	0.91	114.24	103.91	87.92	105.41	87.92	149.38	107.57	140.88
Malaysia (107)	242.16	−59.9	219.72	185.84	223.86	318.17	−46.1	2.28	248.65	226.16	191.36	229.42	322.01	660.85	242.16	587.74
Mexico (27)	1729.85	41.8	1569.56	1326.09	1599.27	14793.01	40.9	1.84	1800.86	1638.00	1385.94	1861.55	15274.29	1901.98	1136.59	1206.88
Netherlands (19)	404.47	20.3	366.98	310.07	373.94	369.91	39.4	2.26	403.47	366.99	310.61	372.26	368.21	440.67	307.19	311.48
New Zealand (14)	87.76	−4.4	79.63	67.28	81.13	74.85	8.2	4.11	92.99	84.58	71.57	85.80	79.28	96.47	83.03	91.93
Norway (39)	364.59	23.4	330.80	279.49	337.07	353.44	38.0	1.74	382.73	329.92	279.15	334.67	351.84	374.84	263.68	264.67
Philippines (22)	83.90	−58.8	76.12	64.32	77.57	147.38	−44.8	1.44	84.77	77.11	65.24	78.21	145.75	214.07	83.90	192.81
Singapore (42)	237.89	−43.3	215.85	182.37	219.84	173.27	−38.0	1.82	241.71	219.85	186.02	223.01	175.88	448.01	237.89	381.62
South Africa (43)	324.63	1.9	294.55	248.86	300.12	335.50	3.1	2.54	320.77	291.76	248.88	295.98	331.62	370.12	307.49	343.78
Spain (33)	250.76	14.1	227.52	192.23	231.83	284.82	31.5	2.37	253.21	230.31	194.87	233.63	285.97	277.98	196.28	190.09
Sweden (49)	490.60	16.3	445.14	376.09	453.56	552.18	29.5	1.88	494.13	449.45	380.28	455.91	557.71	538.94	380.36	395.52
Switzerland (33)	311.65	30.6	282.79	238.91	298.13	284.16	43.1	1.17	309.40	291.42	238.11	285.47	282.22	329.59	231.89	244.18
Thailand (39)	33.12	−65.4	30.05	25.39	30.62	49.56	−48.0	5.67	34.77	31.83	26.79	32.06	51.52	128.94	33.72	117.17
United Kingdom (215)	320.60	13.2	290.89	245.77	296.40	280.89	18.6	3.40	321.05	292.01	247.06	296.21	292.01	337.98	256.17	256.17
USA (633)	384.33	27.3	248.71	294.62	355.32	384.33	27.3	1.61	397.77	352.70	298.43	357.77	387.77	399.82	283.35	285.54
Americas (813)	351.16	27.2	318.64	269.21	324.67	295.91	27.3	1.61	354.49	322.43	272.81	327.06	298.64	365.75	259.48	261.44
Europe (711)	279.12	16.5	253.26	213.97	258.05	283.18	28.7	2.43	278.88	253.64	214.61	257.29	282.97	298.25	222.93	222.93
Nordic (146)	436.87	20.4	396.39	334.90	403.90	431.92	35.4	1.74	438.02	398.41	337.10	404.14	433.40	464.93	333.70	375.84
Pacific Basin (877)	124.71	−18.1	113.15	95.60	115.29	97.13	−11.3	1.50	124.50	113.24	95.81	114.87	87.22	160.96	124.50	158.83
Euro-Pacific (1588)	189.14	1.4	171.82	145.00	174.87	159.36	9.6	2.07	188.91	171.83	145.39	174.30	159.34	209.12	173.55	194.78
North America (756)	374.40	26.9	339.70	287.01	346.13	373.77	26.8	1.62	377.73	343.57	290.70	348.51	377.06	389.57	277.21	279.20
Europe Ex. UK (496)	250.59	18.4	227.37	192.10	231.67	241.73	34.9	1.87	250.01	227.40	192.41	230.87	240.90	267.07	198.15	200.13
Pacific Ex. Japan (393)	222.46	−29.4	201.85	170.54	205.67	212.13	−22.0	3.68	220.05	200.15	169.35	203.02	209.38	320.65	220.05	299.79
World Ex. US (1811)	193.99	2.8	176.01	148.71	179.35	188.80	10.6	2.05	183.86	176.42	149.27	178.96	186.90	212.89	176.94	186.32
World Ex. UK (2229)	248.85	13.8	225.79	190.77	230.07	223.82	18.1	1.65	250.02	227.41	192.42	230.88	224.40	232.69	211.16	213.62
World Ex. Japan (1960)	326.16	18.2	295.93	250.03	301.53	318.89	26.9	1.98	327.76	298.12	252.24	302.41	320.41	344.35	257.42	258.05
The World Index (2444)	254.98	13.7	231.35	195.47	235.73	229.50	18.2	1.83	256.09	232.93	197.08	238.28	230.59	268.47	216.15	217.28

Copyright, FTSE International Ltd., Goldman, Sachs & Co. and Standard & Poor's. 1997. All rights reserved. "FT/S&P Actuaries" is a joint trademark of The Financial Times Limited and Standard & Poor's. CONSTITUENT CHANGES DURING THE WEEK ENDING 24/10/97: Additions: France Telecom (Large Cap) (Share weighting: 23.22%) (France), Nycomed Amersham (Ord & Non-Voting) (Medium-Small Cap) (UK). Deletions: Louisiana Land & Exploration (USA), Nycomed (A and B) (Norway) and PWA Papierwerke (Germany). Share weighting change: Lufthansa (100% weighting to 49.99% weighting) (Germany). Name change: TR City of London Trust to City of London Investment Trust (UK).

Emerging markets: IFC investable indices

Dollar terms

Oct 23 Market		Day's % chg	% Chg since 31/12/96
Latin America			
Argentina	1213.76	−6.4	+27.7
Brazil	577.54	−7.4	+45.7
Chile	730.93	−1.5	+17.9
Colombia	880.35	−0.2	+40.6
Mexico	793.08	−4.1	+49.7
Peru	340.87	−1.4	+22.4
Venezuela	1,123.98	−2.2	+54.4
East Asia			
China	62.29	−8.9	−18.5
Korea	65.18	−8.9	−15.7
Philippines	130.98	−5.0	−56.4
Taiwan, China	146.31	+2.3	−2.8
South Asia			
India	98.14	−1.9	+24.8
Indonesia	66.42	−0.6	−48.0
Malaysia	141.40	−1.9	−58.0
Pakistan	283.78	−2.8	+45.0
Sri Lanka	127.24	−0.4	+33.8
Thailand	90.64		−58.1
Europe/Mideast/Africa			
Czech Rep	85.45	−2.9	−8.7
Egypt	103.18	−0.1	−
Greece	380.20	−1.5	+58.9
Hungary	312.41	+0.3	+58.8
Israel	131.13		+31.1
Jordan	214.86	+0.1	+14.7
Morocco	131.42	−0.5	−
Poland	730.38	−1.6	−0.3
Portugal	198.33	−1.7	+35.7
Russia	197.26	−4.4	−
S Africa	214.54	−5.0	+2.8
Slovakia	104.73	−0.1	−
Turkey	349.68	+0.1	+135.1
Zimbabwe	567.91	+0.5	+20.0
Regions			
Composite	293.18	−3.3	−0.6
Latin America	751.41	−4.9	+39.7
Asia	148.48	−0.8	−40.9
EMEA	170.71	−2.8	+27.1

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991. (2)Dec 21 1992; (3)Jan 5 1990; (4)Dec 21 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 8 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1993; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close October 24

NEW YORK STOCK EXCHANGE PRICES

- A -
- B -
- C -
- D -
- E -
- F -
- G -
- H -
- I -
- J -
- K -
- L -
- M -
- N -
- O -
- P - Q -
- R -
- S -
- T -
- U -
- V -
- W -
- X - Y - Z -

Price data supplied by Exist, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-new yearly low. P/E price-earnings ratio. dd-deficit. b-new yearly high. c-liquidating or at-option. yld-yield. z-sales in full. d-Delinquent or bankrupt. t-Trading suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7715.41	7847.77	8034.65	8259.31 (6/8)	6391.69 (11/4)	8259.31 (6/8/97)	41.22 (8/7/32)
Home Bonds	104.23	104.07	104.03	104.76 (31/7)	101.98 (14/4)	104.76 (31/7/97)	54.99 (1/10/81)
Transport	3229.14	3292.53	3367.09	3358.27 (15/10)	2222.07 (2/1)	3358.27 (15/10/97)	13.23 (8/7/32)
Utilities	240.56	245.06	247.00	246.52 (7/10)	209.47 (25/4)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's High 7975.47 (7957.05) Low 7645.91 (7767.22) (Theoretical♦)
Day's High 7990.61 (8029.00) Low 7686.51 (7805.04) (Actual♦)

Standard and Poors	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	941.63	950.69	968.49	983.12 (7/10)	737.01 (2/1)	983.12 (7/10/97)	4.40 (1/6/32)
Industrials¶	1095.34	1107.40	1128.51	1148.82 (7/10)	865.42 (11/4)	1148.82 (7/10/97)	3.52 (30/6/32)
Financial¶	112.41	114.06	116.12	118.04 (7/10)	90.75 (2/1)	118.04 (7/10/97)	7.13 (4/5/74)
Others							
NYSE Comp.	495.76	499.49	508.80	514.21 (7/10)	389.47 (11/4)	514.21 (7/10/97)	4.64 (25/4/42)
Amex Comp	701.10	703.39	713.74	721.80 (7/10)	541.20 (28/4)	721.80 (7/10/97)	524.20 (16/7/96)
NASDAQ Cmp	1650.92	1671.25	1708.06	1745.85 (9/10)	1201.00 (2/4)	1745.85 (9/10/97)	54.87 (3/10/74)
Russell 2000	447.53	449.36	458.25	465.21 (13/10)	335.85 (25/4)	465.21 (13/10/97)	123.36 (7/12/93)

■ RATIOS

	Oct 17	Oct 10	Oct 3	Year ago
Dow Jones Ind. Div. Yield	1.70	1.66	1.66	2.12
	Oct 22	Oct 15	Oct 8	Year ago
S & P Ind. Div. yield	1.47	1.47	1.46	1.92
S & P Ind. P/E ratio	25.88	25.95	26.16	23.15

US DATA

■ MARKET ACTIVITY

■ Volume (million)

	Oct 24	Oct 23	Oct 22
NYSE	671.355	674.906	612.239
Amex	32.382	33.054	26.147
NASDAQ	925.301	831.873	888.309

NYSE	Oct 24	Oct 23	Oct 22
Issues Traded	3,387	3,401	3,401
Rises	1,337	581	1,210
Falls	1,503	3,418	1,618
Unchanged	547	422	586
New Highs	110	82	175
New Lows	47	88	30

■ NYSE TRADING ACTIVITY — Volume : 676,821,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Boeing	11,122,300	48⅛	-⅞
Compaq Cmp	10,912,400	63¾	-2⅞
Fst Data Cp	10,463,700	31⅛	+1
Micron Tch	8,884,200	30	-1⅞
IBM	7,422,600	97⅞	-2⅛
AT & T	8,991,900	50⅜	+1⅝
Gen Elect	6,865,300	65⅜	-1⅛
Ph Morris	6,448,400	38⅛	-1¼
Fsh Del Mt	6,212,000	17	+1
Coca Cola	5,995,900	55½	-2

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Learning	19⅛	+1⅞	+10.9
Bco Stiago	23⅛	+2⅛	+10.7
Avon Prods	73¾	+6⅞	+10.3
Corr Cp Am	34½	+3	+9.5
Downs			
Teradyne	40⅝	-6⅛	-13.8
Times Mir	31	-3¼	-9.8
Bay Ntwk	32	-2¾	-7.8
Trans Inst	58⅝	-4⅞	-7.8

■ NASDAQ TRADING ACTIVITY — Volume :946,717,000

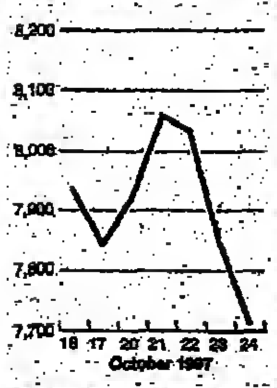
■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Appld Matl	61,280,800	33⅛	-3⅛
Intel Corp	30,659,800	80	-1½
KLA-Tencor	16,210,400	52¾	-5⅝
Dell Comptr	16,115,900	93⅜	-1⅛
Cisco Sys	11,232,600	80¼	-1¼
3Com	9,888,600	45⅜	-1⅛
Atmel Corp	9,591,700	28¼	-1⅝
Microsoft	8,732,800	135½	-¼
Sun Micro	8,511,400	37⅜	+⅜
Lam Resrch	7,549,300	37⅛	-1⅜

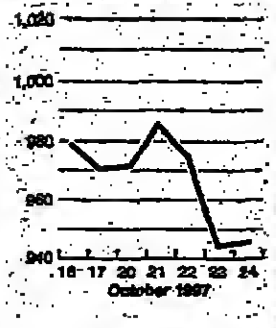
■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Kruisler Mf	46	+15¾	+52.1
Pauls Fin	23⅛	+5⅛	+28.1
Northstn	15	+3¼	+27.7
Premns Tch	14½	+2¾	+23.7
Downs			
Spectrian	25¼	-15⅛	-37.7
Tessco Tch	20⅞	-7¼	-26
Harbinger	31⅛	-8⅛	-21.1
Brooks Aut	25⅜	-6⅛	-19.4

Dow Jones



FTSE Eurotop 300



JAPAN

	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
Nikkei 225	17363.74	17151.55	17687.61	20681.07	17151.55	38915.9	85.25

■ TOKYO TRADING ACTIVITY — Volume : 480,000,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Nippon Stl	9,975,000	280	+1
Daito Kogyo	8,088,000	5	+2
Sato Kogyo	8,087,000	91	-28
Kawsaki Stl	7,981,000	222	-2
Sakura Bk	7,873,000	611	-19
Bk Tk-Mitsh	7,853,000	1700	-30
Stomo Mtl I	7,061,000	261	-12
Mitsui Fud	6,455,000	1400	-110
Nomura Sec	6,118,000	1540	-20
Kawsk Hvy	6,083,000	321	-10

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Mitto Cons	288	+53	+22.6
Yuasa Corp	227	+36	+18.9
Deodeo Crp	1320	+190	+16.8
Stwt El Wre	290	+39	+15.5
Downs			
Sato Kogyo	91	-26	-22.2
Sankyo	2300	-400	-14.8
Shimachu	2340	-280	-10.7
Daifuku	844	-88	-9.3

FRANCE

	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
CAC 40	2849.03	2856.87	2958.06	3094.01	2256.97	3094.01	984.61

■ PARIS TRADING ACTIVITY — Volume : 453,494,330

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Fr. Telecom	4,053,006	207.8	+1.4
Rhone-Pinc	1,316,700	246.9	-0.1
Axa-UAP	1,309,846	402.9	+4.3
Ass Gn Frnce	1,045,309	316.5	+2.2
Usinor	1,036,714	111.5	+1
Alcatel	875,631	738	-27
BNP	740,417	285.9	-5.8
Total	680,548	648	+11
Elf Aquitne	674,505	748	-1
LVMH Moet	578,237	1033	-1

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Sadim	526	+48	+10
Ingenico	123.7	+10.1	+8.9
Genl. France	1371	+91	+7.1
Hachette	1065	+65	+6.5
Downs			
Guillege	410	-68	-14.2
SPH	302.2	-47.8	-13.7
Mlle Amis	49.5	-6.5	-11.6
Arbel	65.1	-6.5	-9.6

GERMANY

	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
DAX	4050.87	3977.28	4171.45	4438.93	2848.77	4438.93	931.10

■ FRANKFURT TRADING ACTIVITY — Volume : 9,083,946

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
BASF	1,285,155	61.8	+1.1
Hoechst	1,204,338	75.38	+0.48
Deut.Telekom	1,082,504	32	+0.45
Bayer	1,055,542	69.45	+0.40
Deut.Bk	1,004,745	110.18	+1.25
Daimler-Benz	774,104	130.4	+2.3
Siemens	713,893	114.8	
Commerzbk	662,038	63.4	+1.4
Lufthansa	463,750	32.6	+1.1
Dresdner Bk	328,840	79.3	+1.6

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
[illegible]	850	+80	+10.2
[illegible]	171	+10	+6.2
SAP	509.5	+28.5	+6
Merck.Actiens	580	+31.5	+5.7
Downs			
Barmag	400	-25	-5.9
Glunz	58	-3	-4.9
Strabag	122	-6	-4.7
Leica Camera	44	-2	-4.3

UK

	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	Since compilation High	Since compilation Low
FTSE 100	4970.2	4991.5	5148.8	5330.80	4056.60	5330.8	986.9

■ LONDON TRADING ACTIVITY — Volume : 701,100,000

■ ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
BG	18,372,280	257	-18
BP	11,472,360	885	-4
Shell T&T	11,367,510	423½	-11
Nat Power	10,308,300	492	+4
[illegible]	10,280,220	2½	
[illegible]	10,174,270	7¼	-¼
HSBC (75p)	8,848,723	1612	+2
Centrica	8,575,803	83¼	-½
Cable & Wire	8,448,715	472	-1
BT	8,423,708	460	-5

■ BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Superscape	16	+3½	+28.0
Utilitec	44½	+8	+21.9
Tele-Cine	47½	+6½	+15.8
Scot Orient	69	+8	+13.1
Downs			
Sec Lon Amr	29½	-10	-25.3
Lofties Rd	36½	-4	-9.9
Clivedon	52½	-5½	-9.5
Innov Tch	150	-14	-8.5

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	963.50	944.00	-11.50	968.95	942.00	68,413	190,308
Mar	975.25	954.40	-11.60	975.50	954.00	516	4,445
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	16950.0	17400.0	+140.0	17520.0	16940.0	28,611	169,876
Mar	16990.0	17400.0	+140.0	17400.0	16990.0	3	9,695

Open interest figures for previous day.

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2861.0	2847.0	-12.0	2909.0	2844.0	20,670	31,327
Nov	2888.0	2855.0	-12.0	2913.0	2852.5	717	17,812
■ DAX							
Dec	4062.5	3995.0	+12.5	4087.0	3990.0	22,391	64,217
Mar	4082.0	4032.5	+12.5	4115.5	4030.0	331	3,528

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	2452.50	2461.50	+22.50	2479.50	2452.50	2,789	8,881
Nov	2463.75	2428.00	-21.00	2489.75	2424.00	6,856	22,412
■ SOFFEX							
Nov	5709.9	5694.0	+33.00	5735.0	5674.0	4,579	21,387
Dec	5838.0	5703.5	-	-	-	8	255

WORLD MARKETS AT A GLANCE

Country	Index	Oct 24	Oct 23	Oct 22	1997 High	1997 Low	※ Yield	※ P/E
Argentina	General	23533.73	24444.09	25771.70	25591.25 21/10	18227.37 2/1	3.06	20.2
Market tumbled to five-month low as sell-off on Wall Street spooked investors.								
Australia	All Ordinaries	2581.3	2614.9	2682.9	2779.20 25/9	2352.20 1/4	3.47	18.7
	All Mining	704.8	719.7	748.2	887.10 24/2	704.80 24/10		
Sharp Hong Kong bounce helped All Ords recover a third of its early 3 per cent tumble.								
Austria	Credit Aktien	480.41	456.58	466.96	474.42 2/10	374.48 9/1	1.89	16.4
	Traded Index	1386.67	1374.09	1418.02	1480.48 31/7	1130.22 9/1		
Market remained nervous after Thursday's sell-off. Luxury hosiery maker Wolford failed to rebound, ending flat.								
Belgium	BEL20	2305.13	2328.36	2381.89	2821.98 28/7	1871.05 2/1	2.43	15.6
Rebounded in afternoon as poor Wall Street performance having recorded gains in the morning session.								
Brazil	Bovespa	11545.0	11898.0	12956.0	13617.00 8/7	6955.50 2/1	0.42	na
Shares wiped out early gains to fall heavily, with dealers reporting heavy foreign selling. Blue chips fell sharply.								
Canada	TSE 100♦	418.89	421.55	428.70	430.48 7/10	342.12 11/4	1.69	21.4
	Metals Minls♦	4530.93	4583.28	4891.65	5891.76 10/3	4540.73 17/10		
	Composite♦	7033.50	7073.80	7163.80	7289.98 7/10	5878.30 14/4		
	Portfolio§§	3445.20	3464.44	3510.83	3547.88 7/10	2846.02 11/4		
Weak gold shares and falls on Wall Street led the market lower.								
Chile	IGPA Gen¶	5139.60	5175.59	5226.21	6086.71 4/7	4812.42 2/1	3.42	16.7
Stocks shed early gains to post marginal losses.								
China	Shanghai B	67.46	67.13	70.33	98.21 7/5	60.78 9/1	1.19	71.6
	Shenzhen B	118.81	117.01	125.95	184.20 8/5	117.01 23/10		
Shanghai foreign currency B shares ended higher as selling eased after Hong Kong's rebound.								
Colombia	IBB	1508.94	1516.98	1521.80	1583.72 16/10	844.41 2/1	na	na
Flagging demand for blue chips depressed market but brokers said Asian turmoil was having little effect on stocks.								
Czech Republic	PX 50	535.2	540.9	548.6	629.80 25/2	478.78 21/5	na	na
Blue chip losses dragged the market lower.								
Denmark	CopenhagenSE	648.81	645.63	660.86	682.81 8/10	430.14 2/1	1.34	20.4
Firms with south-east Asian exposure again the focus as shares bounced after the recovery in Hong Kong.								
Egypt	Cairo SE Gen	(c)	367.29	386.96	--	--	na	na
Finland	HEX General	3796.91	3777.13	3890.81	3890.81 22/10	2403.28 2/1	2.08	16.5
Retreated from morning gains after market heavyweight Nokia came off in afternoon session.								
France	SBF 250	1851.58	1854.40	1915.26	2003.48 31/7	1533.16 2/1	2.57	17
	CAC 40	2849.03	2856.87	2958.06	3094.01 3/10	2256.97 2/1		
Ended lower after giving up the morning's tentative gains. Institutions reportedly on the sidelines.								
Germany	FAZ Aktien	1354.25	1347.00	1395.22	1481.44 31/7	988.21 2/1	1.46	19.7
	Commerzbank	3946.60	3926.00	4086.70	4338.70 31/7	2875.89 2/1		
	DAX‡	4050.87	3977.28	4171.45	4438.93 31/7	2848.77 2/1		
Retreated in afternoon session on weak Wall Street. Bayer and BASF flat in spite of Goldman Sachs recommendation.								
Greece	Athens SE	1696.18	1710.66	1735.94	1794.14 8/10	954.54 2/1	2.69	17.9
Failed to recover in line with other European markets. Sentiment depressed by weak drachma and higher interbank rates.								
Hong Kong	Hang Seng	11144.34	10426.30	11637.77	16673.27 7/8	10426.30 23/10	3.75	10.4
	HSCC Red Chip	2053.04	1819.94	2024.91	4110.55 27/8	1819.94 23/10		
Hang Seng bounced sharply as lending rates fell and 24 companies repurchased their shares.								
Hungary	Bux	(c)	(c)	8106.66	8483.80 6/8	4291.30 6/1	na	na
India	BSE Sens.	3957.46	4008.77	4082.70	4548.82 5/8	3225.24 2/1		
	Crisil 500	723.88	734.80	746.20	843.28 5/8	622.71 2/1	na	na
Fall for fourth session in a row on foreign selling in selected blue-chip stocks.								
Indonesia	Jakarta Comp.	480.39	484.13	505.23	740.83 8/7	479.01 2/9	2.36	13.9
Stocks closed lower despite stronger rupiah, as buying interest remained thin in anticipation of outcome of IMF talks.								
Ireland	ISEQ Overall	3828.58	3827.19†	3857.38	3894.06 14/10	2725.07 2/1	2.27	18.8
Trade muted because of bank holiday on Monday. Financials were in favour after a turbulent week.								
Israel	Mishtanim 100	(c)	(c)	(c)	311.76 5/8	214.15 2/1	na	na
Italy	BCI Comit 30	232.82	233.74	237.93	242.86 26/9	185.74 2/1	1.59	24.9
	Banca Com Ital	990.81	981.48	1008.88	1006.86 22/10	842.55 2/1		
	Mibtel General	15698.0	15712.0	15997.0	16059.00 26/9	10488.09 2/1		
Gave up gains of morning session, led down by Telecom Italia which was a weak market ahead of next week's offering.								
Japan	Nikkei 225	17363.74	17151.55	17687.61	20681.07 16/6	17151.55 23/10	0.86	46.4
	Nikkei 300	281.24	282.55	288.42	303.71 28/7	251.84 27/1		
	Topix	1391.69	1336.88	1365.74	1590.28 26/6	1328.82 10/4		
	2nd Section	1422.85	1434.82	1455.76	1848.25 30/6	1409.81 14/10		
Rebounded from low for the year, hit during morning session, on back of Hong Kong recovery.								
Jordan	Amman SE	(c)	(c)	170.64	--	--	na	na
Malaysia	KLSE Comp.	692.36	708.45	731.17	1271.57 25/2	682.38 24/10	2.51	11.8
Weak ringgit, continuing disappointment over budget and HK scare saw index close at lowest level in more than four years.								
Mexico	IPC	4920.06	5058.73	5208.19†	5398.36 18/10	3088.48 2/1	1.2	17.4
Second day of heavy losses after early hopes of Wall Street recovery were dashed.								
Morocco	CASA	867.45	865.80	865.37	889.25 23/4	481.88 3/1	na	na
Blue chips traded in tight range as market moved marginally ahead.								
Netherlands	CBS TRRtnGen	1054.8	1059.5	1095.7	1184.88 7/8	730.89 2/1	2.09	22.8
	CBS All Shr	910.8	908.1	928.6	984.49 7/8	428.00 2/1		
Discouraged by a weak opening on Wall Street. Philips in favour after strong results.								
New Zealand	Cap. 40	2459.75	2509.36	2535.48	2535.48 22/10	2207.48 1/4	4.02	20.4
Shares toppled 5.35 per cent in response to HK losses – the biggest fall since the 1987 crash. Not one stock gained.								
Nigeria	SE All-Share	6573.93	6742.38	6759.50	--	--	na	na
Market hit a year-low although traders remained optimistic and said many stocks were significantly undervalued.								
Norway	Oslo SE Ind	2281.27	2250.60	2287.56	2287.56 22/10	1838.03 2/1	1.76	15.9
Recovered ground lost on Friday as dealers reported a recovery of sentiment.								
Pakistan	Karachi SE	1980.88	2014.20	2057.98	2057.98 22/10	1341.31 7/1	na	25
Locals sold on fears foreigners might unload stocks after recent volatility in regional markets.								
Peru	Lima Gen	1852.51	1848.22†	1887.85	2288.48 18/7	1429.70 2/1	na	na
Solid earnings from Telefonica del Peru pushed stocks higher.								
Philippines	Manila Comp	1847.78	1832.81	1928.57	3447.80 3/2	1802.81 23/10	1.38	11.4
Index recovered from 4 per cent drop to close 0.81 per cent higher as Hang Seng extended gains.								
Poland	WIG	17055.3	17576.4	17792.5	18330.40 18/2	14421.80 8/1	1.39	12
Extended Thursday's losses on currency devaluation fears. Analysts expect a rebound on Monday.								
Portugal	BVL 30	3548.21	3551.81	3627.36	3866.81 3/10	2185.57 2/1	1.68	25.4
	PSI 20	8269.90	8279.00	8456.12	8893.92 3/10	5182.94 2/1		
Shares ended mixed after Wall Street's drop with dealers warning that the market reaction to Hong Kong was not over.								
Russia	RTS	518.29	528.50	550.44	571.66 6/10	213.38 8/1	na	na
Domestic investors returned after Thursday's turmoil, helping shares higher.								
Singapore	SES All-S'pore	409.04	412.28	430.18	573.03 17/2	409.04 24/10	2.18	13.9
	Straits Times	1617.81	1649.87	1731.68	2271.88 20/1	1617.81 24/10		
Fell over fears of weakening local currency but recovered from early lows on back of rally in Hong Kong.								
Slovakia	SAX	184.54	185.81	183.30	208.84 21/3	164.81 22/7	na	na
Market heavyweight Slovnaft led shares lower, but leading stocks traded only insignificant volumes.								
South Africa	JSE Gold	957.0¶	1008.5	1004.8	1588.10 27/2	973.20 23/10	2.88	14.4
	JSE Ind.	8782.6¶	8892.0	9036.5	9814.30 7/8	7859.50 2/1		
Gold index fell to lowest level for a month as gold prices fell on news that Switzerland proposing to sell bullion.								
South Korea	KoreaCmpEx**	570.91	604.08	601.32	792.29 17/6	568.64 20/10	2.29	14.3
Record losses in both percentage and points terms on heavy foreign selling as the won currency fell to new lows.								
Spain	Madrid SE	581.09	594.83	599.42	640.20 1/10	404.54 2/1	2.46	13.8
Market came off in the afternoon session to end lower following Wall Street's poor start. Volume very thin.								
Sri Lanka	CSE All Share	780.19	786.70	788.60	868.70 31/7	606.78 2/1	na	na
Price declines outnumbered rises by 38 to 17 as local investors showed limited interest in stocks.								
Sweden	AffarsvarldsGen	3045.8	3069.4	3155.8	3316.80 7/8	2378.50 2/1	1.84	21.7
Ericsson led the market higher in the morning session but later retreated amid general uncertainty.								
Switzerland	SMI Index	5889.5	5951.8	5803.2	6012.80 8/7	3822.90 7/1	1.13	22
	SPI General	3638.87	3617.93	3708.66	3770.16 3/10	2506.22 6/1		
Technical buying helped recoup some of Thursday's 2 per cent loss. Insurers rose on corporate activity rumours.								
Taiwan	WeightedPr.**	7719.04	7825.01	7692.47	10116.84 26/8	6844.75 8/1	1.02	29.8
Clawed back from early 3.7 per cent fall to finish mildly down, but all major sectors recorded losses.								
Thailand	Bangkok SET	494.00	(c)	511.56	858.97 22/1	464.77 19/6	5.12	10.3
Negative sentiment was bolstered by local political turmoil, credit rating downgrades and losses in regional markets.								
Turkey	IMKB Nat 100	3612.00	3543.0	3497.00	3643.80 23/10	885.00 2/1	1.66	20
Retreated on profit-taking after hitting record intra-day high on political and economic hopes.								
Venezuela	IBC	10300.68	10511.2†	10730.60	10817.13 17/10	6081.98 12/3	na	na
Uncertainty over outcome of congressional probe into Brady swap continued to weigh on sentiment.								
Zimbabwe	ZSE Industrial	10455.62	(u)	10363.65	12081.95 5/8	8638.89 2/1	na	na
Ignored Asian crisis to record its eleventh successive day of gains, lifted by mining and industrial stocks.								
WORLD	FT/S&P World($)	254.98	258.09	262.74	288.09 7/10	236.81 14/4	na	na
	MS Capital Int$	838.3*	859.0	863.3	981.80 31/7	794.50 14/4	na	na
CROSS-BORDER	Eurotrack 100	2829.84	2824.89	2713.78	2794.89 7/8	1863.80 2/1	na	na
	FTSE E100	2201.18	2159.99	2277.01	2355.95 7/8	1682.80 2/1	na	na
	HSBC JC Drgn	(u)	272.57	291.56	494.83 6/8	272.57 23/10	na	na
	MS Emgs Emrg	165.87	171.91	173.78	198.81 9/7	158.74 3/1	na	na

** Sat Oct 18: Taiwan Weighted Price 7818.45; Korea Comp Ex 584.71. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Oct 24 - 3881.44 +5.06. † Correction. * Calculated at 15.00 GMT. ⊕ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation. ※ Yields and P/E ratios are based on Datastream Total Market Indices. ※ Midsession.

NASDAQ NATIONAL MARKET

4 pm close October 24

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

NASDAQ NATIONAL MARKET

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMEX PRICES

4 pm close October 24

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$2.75	-0.125	18710	8.25	2.75	Lernout & Hauspie	US$56.875	+2.125	19455	58.625	25
Artwork Systems	US$9.75	+0.125	30610	11.125	7.875	Melexis	US$7.875	+0.0625	13610	9.125	7.1875
Chemunex	FFr12.5		40000	18	10	Mercer Int'l	US$11.5		0	12.875	8.125
Deborah Holdings	GBP4.45	-0.45	207850	7.15	4.45	NTL	US$26.125		0	28.375	20.5
Dr Solomon's ADS	US$27.75	+0.375	1000	32.375	18.875	PixTech	US$3.375		0	6.125	3.375
EDAP TMS	US$8.0625	-0.125	0	9.125	6.5	Schoeller-Bleckmann	Sch1593	+10	500	1692	800
Espace Prod. Int.	FFr102.75	-1.38	1000	117	102.75	Topcall Int'l	Sch4590	+17	100	5000	3085
Esprit Telecom ADS	US$5.75	+0.125	3555	12.25	5.375	Turbodyne Technol.	US$4.93	-0.22	500	6.25	3.73
Innogenetics	US$15	+1	210277	15.75	9.875						

Prices for 24/10/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be EASDAQ offices are located in Brussels (Tel. 32-2 / 227 60 20) and in London (Tel. 44-171 / 489 8890).

FT GUIDE TO THE WEEK

MONDAY 27

Pipe dreams

EU energy ministers meet in Luxembourg to renew attempts to agree long-delayed plans to break down the power of monopoly suppliers and allow competition in Europe's $100bn-a-year gas supply market. They will discuss a compromise proposal for at least 28 per cent of the gas market, accounted for by the largest users, in each EU state to be opened to competition. The percentage would rise after five and 10 years, as the definition of customers eligible to shop around for gas was broadened. They will also discuss the problem of large existing gas suppliers with long-term "take-or-pay" contracts with gas producers – which could leave them with gas they cannot sell if competitors enter the market.

Euro-Japan talks

A delegation of 12 Euro-MPs meets Japanese politicians in Tokyo for an annual two-day interparliamentary meeting. In three sessions they will discuss issues as diverse as drug trafficking and Asian security, but the keenest interest is likely to be in the discussions on trade, climate change, and monetary issues.

Child labour

A global strategy for combating and ultimately eliminating child labour is the focus of a four-day conference in Oslo to be attended by ministers, trade union and employer representatives, United Nations and other organisations. The conference, organised jointly by the International Labour Organisation, the UN Children's Fund (Unicef) and the Norwegian government, aims to draw up an action agenda to help the estimated 250m children working worldwide, often in dangerous and exploitative conditions.

Brown's Emu statement

As the UK parliament sits after long summer recess, Gordon Brown, UK chancellor of the exchequer, is to make a keenly awaited statement about the government's attitude to European monetary union and the single currency.

On the wavelength

Nearly 2,000 delegates are expected to attend the World Radiocommunication Conference in Geneva that will allocate radio frequencies for satellite services at the turn of the century.

The four-week conference, held every two years by the UN's International Telecommunication Union, sets binding global rules for the use of radio frequencies by all types of communication services, including the rapidly-expanding mobile phone satellite systems.

With increasing numbers of users competing for a finite number of frequencies, the allocation debate has become ever more hotly contested. The ITU notes that more satellites are due to be launched in the next 10 years than in the previous 30, representing a $30bn market.

A Japanese health ministry sub-committee will discuss on Tuesday whether or not to approve the birth-control pill for contraception

WTO widens net

A high-level meeting on ways of bringing the world's poorest countries into the international trading system begins in Geneva at the World Trade Organisation. The two-day meeting will focus on practical help for individual least-developed countries involving joint action by six international bodies - the WTO, the UN Conference on Trade and Development (Unctad), the International Trade Centre (run jointly by WTO and Unctad), the UN Development Programme, the International Monetary Fund and the World Bank. The WTO's richer members are also being asked to open their markets further to exports from the poorest nations.

FT Surveys

Lebanon, Australia.

Holidays

Ireland, Nauru, New Zealand, St Vincent, Tukmenistan, Zaire.

TUESDAY 28

German forecast

Germany's six leading economic research institutes are expected to forecast a quickening of economic growth next year in their autumn report. Independent economists have warned, however, that an advance of around 3 per cent in real gross domestic product compared with a possible 2.5 per cent this year would have only a limited impact on the 4.5m seasonally adjusted jobless total because of the structural nature of Germany's unemployment problem.

Foreign parts

Medical experts meet at the World Health Organisation in Geneva (to Oct 30) to review the risks and implications of xenotransplantation – the transfer of animal organs or tissues into human recipients. The use of organs from animals, notably pigs, could save thousands of human lives by alleviating the shortage of human organs for transplants. But xenotransplantation also carries risks of transmission of new diseases to human populations. The experts will discuss these risks as well as immunological and ethical issues which affect the feasibility and acceptability of xenotransplantation.

Control group

A Japanese health ministry sub-committee meets to discuss whether or not to approve the birth-control pill: Japan remains the only country in the world to ban the pill for contraceptive purposes, more than 30 years after it was introduced in the West.

Sudan talks

Sudanese peace talks which stalled three years ago resume in the Kenyan capital; the Khartoum government and the rebel Sudan Peoples' Liberation Army (SPLA) have agreed to provide chief negotiators and negotiating teams of not more than six people each.

Mugabe speech

Robert Mugabe, president of Zimbabwe, gives the keynote speech at a gala dinner held for African leaders attending an international conference to mark the 40th anniversary of the beginning of the decolonisation of Black Africa in London.

Brandt view

David Brandt, chief minister of the volcano blighted island of Montserrat, gives evidence to the British House of Commons international development select committee.

FT Survey

Slovakia.

Holidays

Cook Islands, Cuba, Cyprus, Czech Republic, Greece, Israel.

WEDNESDAY 29

Football

Soccer World Cup European Zone play-offs first leg: Croatia v Ukraine; Russia v Italy; Ireland v Belgium; Hungary v Yugoslavia.

Brought to account

Swiss banks publish the second list of thousands of dormant accounts opened before the end of World War Two in effort to locate their rightful owners. In contrast to the first list published in July, this new list will contain names of Swiss account holders as well as foreigners.

FT Surveys

Portugal.

Holidays

Turkey

THURSDAY 30

Irish vote

Ireland votes for a new president to replace the popular Mary Robinson, with polls suggesting the Fianna Fail candidate, the Belfast academic Mary McAleese should win the contest for what is a largely ceremonial post. After a sometimes acrimonious campaign, with opposition allegations about her links with Sinn Fein, the IRA's political wing, Mrs McAleese is expected to see off the challenge of Mary Banotti, the conservative Fine Gael party's candidate, Adi Roche, the Labour party candidate, and two independents Dana, the pop singer and Derek Nally, the only male contestant.

Dab hands

European Union fishing ministers will consider measures aimed at improving conservation by protecting young fish and spawning stocks. The European Commission believes that technical regulations, covering for example standards on mesh sizes and static gear, are not effective enough.

Golf

Top golfers go to Montecastillo, Spain, for the Volvo Masters, last European PGA tour of the year.

Paper profits

Sotheby's London holds sale of Fantasy, Illustrated Books & Drawings, including original illustrations by Rex Whistler, Arthur Rackham, Aubrey Beardsley and William Heath Robinson.

Holidays

Mauritius, Sri Lanka.

FRIDAY 31

Chairwoman

US first lady Hillary Clinton is scheduled to deliver an inaugural lecture at the University of Belfast for a chair honouring Joyce McCartan, a voluntary worker she met in Belfast in 1995.

Kid gloves

Four 16-year-old girl boxers become the first to compete in an official British tournament following the change in amateur boxing rules allowing women to enter fights, in a tournament in Carmarthen, Wales.

Holiday spirits

Hallowe'en; Diwali (festival of lights) begins.

FT Surveys

Swiss Banking and Finance.

Holidays

Fiji, Germany, Guatemala, Singapore, Slovenia, Taiwan, United States.

SATURDAY 1

Siberian summit

Prime Minister Ryutaro Hashimoto of Japan and President Boris Yeltsin of Russia meet in Krasnoyarsk, eastern Siberia, in an informal summit. They will have about 10 hours together, with no set agenda. Among the serious issues likely to figure in their discussions is that of the Kurile Islands. The Russian side is optimistic about breaking the longstanding deadlock over the Kurile Islands, known as the Northern Territories in Japan, while Japan is keen to win a bigger role in energy developments in the Russian far east.

Ski battle

A series of celebrations are planned in Nagano, central Japan, to mark the start of the 100-day countdown to opening of the winter olympics. But the enthusiasm is overshadowed by a continuing dispute about the starting point of the men's downhill skiing race.

Olympic organisers say the proposed start is too low, while the Japanese side says that putting it any higher would damage the environment in a protected area.

Heavy tackle

England v Australia Rugby League test.

Holidays

Algeria, Belgium, Bolivia, Brazil, Burundi, Cape Verde Is, Central African Rep, Chad, Chile, Congo, Croatia, France, French Guiana, French West Indies, Gabon, Germany, Guatemala, Haiti, Italy, Ivory Coast, Lebanon, Liechtenstein, Lithuania, Luxembourg, Madagascar, Mauritius, Monaco, New Caledonia, Peru, Philippines, Poland, Portugal, Rwanda, Senegal, Seychelles, Slovak Rep, Slovenia, Spain, Sweden, Switzerland, Togo, Vatican City, Venezuela, Virgin Islands.

Compiled by Roger Beale.
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ECONOMIC DIARY

Other economic news

Monday: The UK's parliament returns today, with markets awaiting Chancellor Gordon Brown's forthcoming statement of the government's policy on a single European currency.

Tuesday: Third quarter US employment cost index is released, and could show above-average gains. It is a key indicator for Federal Reserve chairman Alan Greenspan, who discusses economic and monetary policy at a joint economic committee hearing today.

Wednesday: Industrial production and large store retail sales for September are released in Japan. In the US, the Federal Reserve publishes its Beige Book summary of regional economic conditions.

Thursday: The temperature of the European labour market is taken, with Danish and Norwegian unemployment figures out, Swedish labour costs and Italian hourly wages data released.

Friday: Anticipation of a rise in US interest rates could be spurred by first estimates of US third quarter GDP. Analaysts at Deutsche Morgan Grenfell forecast real GDP to rise 3.6 per cent on the year.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	HO'KONG	Aug retail sales (real)**		1.5%
Oct 27	CANADA	Aug department stole sales**	11%	12%
	US	Sep existing home sales	4.25m	4.32m
	JAPAN	Oct wholesale price index 2nd 10 days		0.0%
TUE	FRANCE	Sep household consumption†	0.8%	-3.4%
Oct 28	US	Q3 employment cost index, civilian**	0.8%	0.8%
	US	Q3 employment cost index, civilian**		2.8%
	US	BOT-Mitsubishi 10/25		0.2%
	US	Oct consumer confidence	127.9	126.6
	US	Redbook 25 Oct		0.2%
	JAPAN	Sep industrial production†	0.6%	-3.0%
	JAPAN	Sep shipments†		-2.1%
	Japan	Sep retail sales**	-3.3%	-0.7%
WED	FRANCE	Oct industrial survey	18.0	14.0
Oct 29	US	Sep durable orders	-0.5%	2.7%
	US	Sep durable shipments		-1.4%
	CANADA	Sep industrial production P.I.*	0.3%	0.7%
	CANADA	Sep raw materials P.I.	-1.0%	-1.0%
	BELGIUM	Oct consumer price index prelim*	0.2%	-0.4%
	BELGIUM	Oct consumber price index prelim**	1.5%	1.6%
THU	AUSTRLIA	Sep balance on goods & services	A$190m	A$318m
Oct 30	DENMARK	Sep unemployment rate	7.8%	8.0%
	ITALY	Sep hourly wages	4.8%	4.5%
	NORWAY	Oct unemployment rate	2.9%	3.0%
	US	Initial claims 25 Oct	312K	316K
	US	Sep new home sales	810K	800K
	US	M2 week ended 20 Oct	$7.5bn	-$8.3bn
FRI	AUSTRLIA	Sep building approvals	-3.0%	-13.5%
Oct 31	AUSTRLIA	Sep motor vehicle registrations	4.5%	2.5%
	JAPAN	Oct consumer price index (Tokyo)**	2.0%	2.1%
	JAPAN	Oct core price index ex-perishables**	2.2%	2.3%
	JAPAN	Sep consumer price index (nation)**	2.3%	2.1%
	JAPAN	Sep unemployment rate	3.4%	3.4%
	JAPAN	Sep construction orders**		-7.8%
	JAPAN	Sep housing starts**	-22.0%	-17.5%
	FRANCE	Sep unemployment rate	12.5%	12.5%
	FRANCE	Sep jobseekers' ILO	0.0%	-0.1%
	US	Q3 gross domestic product advance	3.2%	3.3%
	US	Q3 gross domestic product price index	2.0%	1.8%
	CANADA	Aug real gross dom prod - factor cost*	0.1%	0.8%
	US	Oct Chicago PMI†	59.5%	61.2%
	US	Oct Michigan sentiment final**	105.0	105.2
During the week...				
	GERMANY	Aug Ifoin consumer climate		90.0
	MALAYSIA	Aug M3**	20.3%	21.0%
	BELGIUM	Q2 prelim gross dom product**† Ann		0.3%
	BELGIUM	Q2 prelim gross dom product**		2.8%
	GERMANY	Aug capital account		-DM20.0bn
	GERMANY	Sep net foreign bond purchases		3.3bn

*month on month, **year on year, ***quarter on quarter, †seasonally adjusted

Standard & Poor's MMS

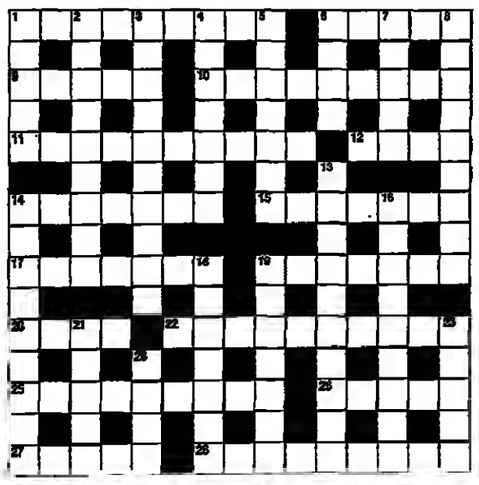
JOTTER PAD

ACROSS

1 Something typists use and footballers lick! (9)
6 Rich little man is doomed (5)
9 A little unwell, I lack colour (5)
10 Capital people in Asian settlement at that time (9)
11 Young man sticks to where teenagers go (5,5)
12 Crop always found among stone (4)
14 Mixed prison, barred, but with no place to buy drinks (7)
15 For tea, say, Jack allows cakes (7)
17 When strikers have to accept deliveries? (7)
16 Amaze with a way to undo knitting (7)
20 Time to edge dress (4)
22 Lip of ferry often damaged (10)
25 Where, under big wheels, heat starts (9)
26 One sailor goes back east furious (5)
27 Unfortunately there's 550 lying in state (5)
28 Proposed – maiden not bothered! (9)

DOWN

1 Two students going in to pay for cow (5)
2 Pass Louis turning north after secret agreement (9)
3 Tea in arsenic could be extremely sweet! (10)
4 Rejected Delia admitting Virginia answered the purpose (7)
5 Show him endlessly taking part once ahead (7)
6 Standing up if one's topless is rare! (4)
7 Derelict vehicle needing parking .... (5)
8 .... told end of road is shut (9)
13 With son in TA bet Peregrine is not drinking alcohol! (10)
14 Good-for-nothing workers the French brought in (9)
16 High-spirited divorcee ran into tube dancing (9)
18 Colour which is unusual for fans (7)
16 An amateur supporter introduced him (7)
21 This poem is a bit evil, I admit! (5)
23 Said why upset idle bear? (5)
24 Take orders from old boy you once stood up to (4)



MONDAY PRIZE CROSSWORD

No.9,516 Set by GRIFFIN

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of £40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday November 6, marked Monday Crossword 9,516 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 10. Please allow 28 days for delivery of prizes.

Name.....

Address.....

.....

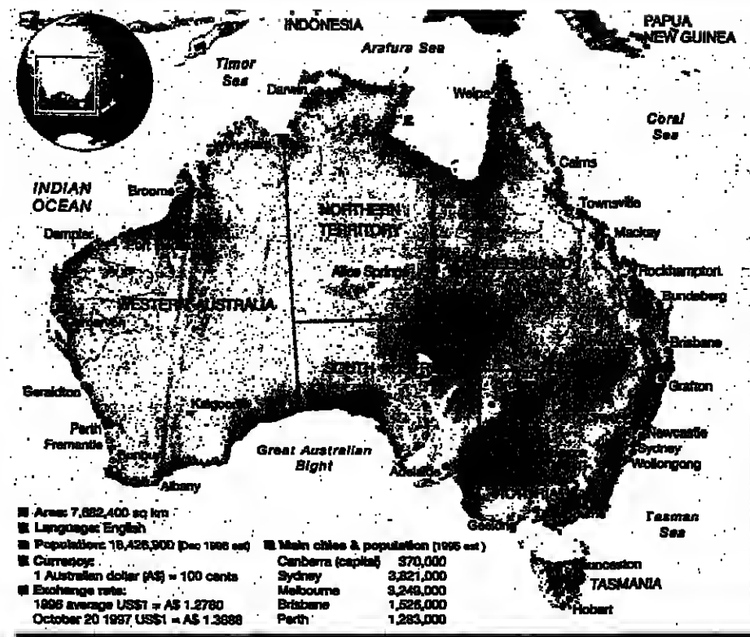
Solution 9,504

WINNERS 9,504: Mrs M. Aubry, Bow Crediton, Devon; W.R. Lees, Canterbury; Mrs A. Miller-Jones, Hythe, Kent; G. Sandars, Repton, Derbyshire

Australia

In spite of abundant resources, Australia remains one of the world's great underachievers, reports **Tony Walker**

Fortune's favour frittered away



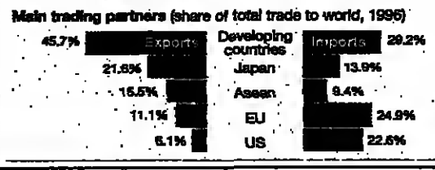
- Area: 7,682,400 sq km
- Language: English
- Population: 18,428,900 (Dec 1996 est)
- Currency: 1 Australian dollar (A$) = 100 cents
- Exchange rate: 1996 average US$1 = A$ 1.2760; October 20 1997 US$1 = A$ 1.3988
- Main cities & population (1996 est)

Canberra (capital)	370,000
Sydney	3,821,000
Melbourne	3,249,000
Brisbane	1,526,000
Perth	1,283,000

Economic summary

	1997 Estimates	1998 Forecasts
Total GDP, nominal (US$bn)	400.66	427.53
Real GDP growth (annual % change)	3.4	3.6
GDP per head (US$)	21,699	22,924
Inflation (annual % change in CPI)	1.8	2.3
Industrial production (annual % change)	3.4	3.4
Recorded unemployment rate (% of workforce)	8.3	8.1
Money supply, M2 (annual % change)	9.3	10.0
Foreign exchange reserves (US$bn)	13.0	13.3
Government expenditure (% of GDP)	26.9	26.7
Total foreign debt (% of GDP)	46.5	44.4
Current account balance (US$bn)	-14.4	-15.4
Merchandise exports (US$bn)	65.2	72.3
Merchandise imports (US$bn)	-65.25	-72.5
Trade balance (US$bn)	-0.05	-0.2

Main trading partners (share of total trade to world, 1996)



Constitution

- Form of state: Federal democracy
- Legal system: Based on constitution of 1901
- National legislature: Bicameral; House of Representatives of 148 members directly elected by a preferential voting system for a three-year term; Senate of 76 members directly elected by proportional representation for a six-year term, one-half of the senate retiring every three years, usually to coincide with elections for the House of Representatives. The Senate may not originate or amend money bills. In certain circumstances the governor-general may dissolve the entire Senate
- Electoral system: Compulsory universal direct suffrage over age 18
- National elections: March 2 1996; next election due by end-May 1999
- Head of state: Queen Elizabeth II, represented in Australia by a governor-general, currently Sir William Deane, appointed February 1996
- State legislatures: In five of the six states there is a bicameral legislature, in the other (Queensland) the legislature is unicameral
- National government: Cabinet headed by prime minister appointed by governor-general on the basis of party strength in the House of Representatives. There is curently a Liberal/National Party coalition majority government
- Main political parties: Liberal Party; Labor Party; National Party; Australian Democrats Party

Sources: EIU, Datastream/ICV

Australia, it seems, has an infinite capacity to disappoint. For all its manifest advantages of abundant resources, benign climate, lack of population pressures, educated workforce and stable political system, its performance rarely matches expectations.

Hugh Mackay, social commentator, recently reported his surveys showed Australians were "disappointed" in their country, reflecting widespread disenchantment with the political leadership.

Australians perceive a lack of leadership on both the conservative and Labor sides of politics - a malaise which hardly augurs well for the challenges ahead as Australia strives to play its part in the development of the Asia Pacific region.

Donald Horne, whose 1964 book *The Lucky Country* helped define an era in Australian politics, today talks about a "crisis of belief" deriving from a deep-seated unhappiness, even contempt, for politicians.

"Paul Keating managed to divide the nation against him," says Mr Horne. "John Howard is managing to divide the nation against itself."

The trigger for renewed soul-searching is the race issue and a feeling that it has been badly mishandled by the Liberal-National Party coalition and Mr Howard in particular.

The prime minister was slow to condemn the blatantly racist views of Pauline Hanson, leader of the populist "One Nation" party, leaving the impression that he may not be completely unsympathetic to her ideas.

The Hanson phenomenon may be passing, as the government asserts, but it is proving divisive domestically and damaging regionally. Asian governments are not averse to using such issues to embarrass a country which already feels "odd man in" in Asia.

Underlying an evident querulousness among Australians about their place in the world are deep concerns about the domestic economy.

Historically high levels of unemployment at 8 per cent to 9 per cent continue to undermine confidence and this is reflected in sluggish retail sales and disappointing figures on new housing - key barometers of economic activity. Business confidence, measured by proposed investment, is also patchy.

Mr Howard's coalition came to power last year, after more than a decade out of office, committed to deficit reduction and to winding back the national debt. It was also determined to "go slow" on reform, assuming after the hectic Labor years Australians were suffering from "reform fatigue".

Half-way through its first term and with an election looming the government, belatedly, seems to have realised that it risks a mauling at the polls unless it becomes more pro-active.

Ministers have begun beating the reform drum referring particularly to the need for sweeping tax reforms, including the introduction of a long-overdue indirect tax on goods and services. Tax reform now tops the political agenda, not least because a progressive tax scale is patently unfair to lower and middle-income earners.

The highest marginal tax rate of 47 per cent now applies at just one-and-a-half times average weekly earnings, compared with 17 times earnings in the 1950s and 1960s.

Mr Howard has shown himself sensitive to these concerns: "If we can fix our taxation system, if we can re-balance the incentives, if we can get something that ceases to penalise our manufacturing exporters...I can't think of a single reform in an important area which will make a more fundamental contribution to realising the great potential of our nation as we go into the 21st century," he says.

But as a former treasurer Mr Howard would know how difficult it is to bring about meaningful tax reform which is regarded as fair and, therefore, commands community support. Efforts in the 1980s, first under a conservative government, and Mr Howard's treasurership, and then under Labor, were stillborn because of union or other pressures. It is widely assumed the conservatives lost the 1993 election after proposing an indirect goods-and-services tax (GST).

Encouragingly, though, discussion about tax reform these days reflects both the need to correct inequities for individual taxpayers and a recognition that Australia must make its tax regime more attractive for investors.

A recent government inquiry called for the establishment of a $1bn fund to encourage new investment from abroad. As a senior economic adviser to Mr Howard says: "We are dealing with a very competitive world. Unfortunately, there is no sense of urgency in Australia, with projects getting caught up in red tape between federal and state bureaucracies. Time is money."

Peter Costello, treasurer, rejects criticism that the government is not doing enough to stimulate economic activity, pointing to deficit reduction and interest rate cuts - there have been five such cuts in the past 18 months - as evidence of a commitment to continued strong economic growth.

Under his treasurership, as he never tires of pointing out, the budget deficit was reduced to 1 per cent of GDP in 1996-97, is projected to be at half a per cent in 1997-98 and will be in surplus by 1998-99. A debt service ratio on foreign debt of 10 percent will be halved by 2000.

At the same time, Australia's projected, if optimistic, growth of 3.5-4 per cent in 1997-98 is among the highest of OECD countries. Australia has experienced 28 successive quarters of positive growth, a performance not seen since the 1960s. Inflation is benign but the current account deficit remains stubbornly high and unemployment shows little sign of dropping below 8 per cent.

Mr Costello appears at something of a loss to explain why business and consumer confidence is not higher and what more the government might do to stimulate activity. Tax reform is an important element of his plans but he recognises this will not provide, overnight, a panacea for sluggish activity.

David Love of Syntec, the economic forecaster, says growth in the next year will be weaker than expected, partly because the US economy has peaked and is due for a downturn. He believes the government has exaggerated the strength of the Australian economy, based on over-optimistic Treasury growth forecasts, making something of a rod for its back in the process.

The government faces other challenges. These include an urgent requirement for workplace reform to dismantle a mesh of restrictive practices which militate against the job creation required to reduce unemployment. The new government has barely scratched the surface of industrial reform: it is not clear it has the will to tackle this area.

It has also shown a tendency to backslide on tariff reduction. Because of concerns about job losses, it has delayed implementation of tariff cuts on imports of motor vehicles and also on textiles, clothing and footwear. The Labor party, which saw its blue-collar support collapse at the last election, generally supports these moves.

With an election due in just more than a year, the government will be obliged to focus increasingly on economic questions and will find itself on the defensive. But there are other issues which will also be tricky, including attempts to deal with land claims by indigenous Australians under the National Title Act of 1994.

A recent High Court decision which found that pastoral leases did not necessarily extinguish native title has thrown the question of who controls vast swathes of Australia into doubt and is requiring additional regulations to "clarify" the issue. This is almost certainly not the end of the story and further legal action seems likely.

The government will also have to deal with the question of Australia becoming a republic and cutting formal ties with Britain. Mr Howard is an avowed monarchist who wishes to preserve the status quo but many of his senior cabinet colleagues hold a contrary view.

All in all, preserving the status quo has not been an option in many areas. Mr Howard had probably hoped that he would be able to steer his government through a less interesting time in its first term.

POLITICS • by Tony Walker

Navigating a political minefield

The parties will have to watch their step in the run up to an election in 1998

Kim Beazley, leader of the opposition, is more optimistic than might seem justified about Labor's prospects of regaining government after its crushing defeat in last year's election.

Reduced to a virtual rump party in the Liberal-National Party landslide of 1996, Labor had seemed destined for years in the wilderness.

But recent political developments, including public disenchantment with John Howard's leadership, have encouraged the opposition to believe it might return to the Treasury benches sooner rather than later.

Mr Beazley, whose performance as replacement for Paul Keating, has not exactly set the world on fire, says: "We have become competitive much faster than I expected. In fact, we have been able to make regaining office a one-term strategy."

The opposition leader, whose appearance and manner is that of a rumpled, overweight academic, draws encouragement from history to bolster his confident assertion that Labor can come back.

He points out that to regain power the opposition needs just two-thirds of the swing, on a two-party preferred vote, achieved by Gough Whitlam, the architect of Labor's resurgence in the late 1960s which ended a generation of conservative rule in 1972.

But even though recent political mishaps, including the resignation of ministers embroiled in a travel expenses scandal, might encourage Labor to believe in early redemption, the road back to power will be far from easy.

The government may be in difficulties but Labor hardly provides a vibrant alternative and the coalition has plenty of time to regain the initiative. An election is not due until 1999 but one will probably be held late next year.

Labor will certainly have been encouraged by the recent state election in South Australia which saw a powerful swing against the Liberals, bringing Labor within an ace of regaining power, just four years after being swept from office. The position of Federal Labor and South Australian Labor are not dissimilar.

The South Australian poll will have added significantly to Mr Howard's worries. It demonstrated graphically that what the electorate "giveth" it also "taketh" in these volatile times. A swing of about 9 percent to the Liberals in 1993, one of the highest on record, was matched by a swing of similar proportions the other way, albeit in a regional election, four years later.

Political commentators blamed the bad result on a sick local economy - South Australia is near the bottom of the economic league among Australia's six states - but they also identified an underlying disenchantment with politicians generally, and the main parties in particular, as reasons for the volatility.

Significantly, the Liberal Democrats polled strongly as the main alternative to the conservatives and Labor.

The South Australian result points to a restive mood in the electorate and portends a period of electoral volatility across the country; governments, state or federal, cannot take too much for granted these days.

That said, history should comfort Mr Howard. No federal administration has been defeated after one term since the early 1930s and on that occasion, the election coincided with the Great Depression. The odds on the Liberal-National Party coalition retaining power must be relatively strong.

But the government is vulnerable on issues such as unemployment which at 8-9 per cent remains stubbornly high. The opposition, after a limp performance initially, appears to have become more effective in pointing out shortcomings.

Gareth Evans, Labor's spokesman on the economy, criticises the government for "knocking the stuffing" out of consumer confidence because of an obsession with deficit reduction. Government parsimony, he argues, has also hit business confidence.

Mr Evans believes belt-tightening has gone too far and loosening is required. The degree to which the government should seek to further stimulate economic activity is shaping up as one of the core differences between the two sides and will help define the economic debate for the next election.

Peter Costello, one of the administration's more effective public performers, rejects these criticisms but he is aware that the government is vulnerable to suggestions that cuts in spending have dampened economic activity.

Sensitive to such criticisms, and with an eye on the need to target marginal electorates with special assistance, the government has launched the "Federation Fund" to help finance large infrastructure projects, such as railway construction.

But in the political cut and thrust of the looming election year, it is tax reform which seems certain to occupy centre-stage - assuming the government keeps its nerve and presses on with plans to launch perhaps the most ambitious overhaul of the tax system in Australia's history.

Mr Costello knows that he will assume much of the burden for selling complex tax reforms and that the task will not be easy. He also knows there could hardly be a more propitious time for such reforms with inflation under control and interest rates low. However, Australian governments have a history of fumbling tax reform when the political going gets rough.

Prime time: Mr Howard faces a struggle to win in 1998 Reuters

Proposed variations to the tax scale, introduction of new taxes and changes to the web of of federal-state financial relationships, will inevitably invite opposition from powerful interests, including unions, business and state governments, not to mention an opposition bent on making political capital out of reform which will produce winners and losers.

But the economy and tax are far from the only issues likely to weigh heavily in the run-up to the next election. Argument about race and native title - the rights of indigenous Australians to land - will also intrude.

The incendiary activities of Pauline Hanson, leader of "One Nation", provides a dilemma for the coalition and Labor since Ms Hanson gives expression to real community concerns about job security and multi-culturalism. Both major parties need to be careful to avoid alienating voters who may have sympathy for "one nation" populism without fully subscribing to its more objectionable elements, including overt racism.

The native title issue presents the government with sensitive management problems as it seeks to strike a delicate balance between fairness to indigenous Australians and the risk of infuriating supporters in primary industries, including mining and agriculture.

The coalition has come up with a 10-point plan to avoid possible confusion following a High Court ruling last year which cast doubt on the validity of pastoral leases where native title might be a factor, opening a potential Pandora's Box of claims and counter-claims.

This is a complex issue which raises numerous contentious questions about control and use of land and is thus extraordinarily sensitive in a resource-dependent country. Ms Hanson's populism plays on such concerns and this has enabled her to build support in rural Australia, at the expense of the National Party, junior partner in the coalition.

Australian politics in the next 12 months will be subjected to more than its share of cross currents. The government faces a tricky task maintaining a steady course. The next election may be a good deal closer than seemed likely, or even possible, after Labor's decimation.

Mr Beazley may well end up extolling the virtues of passive politics - achieving more by doing less.

ECONOMY • by Elizabeth Robinson

Cowed by cautionary tales

The government stands accused of stalling economic, and employment, growth

Australia's unemployment rate of a stubborn 8.5 per cent is bedevilling the economic policies of John Howard, prime minister. Ian Macfarlane, governor of the Reserve Bank, says Australia's results on unemployment "could only be described as average by world standards".

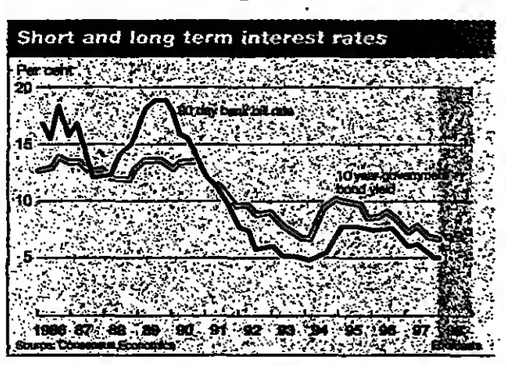
Recent figures give scant hope for employment growth in the short-term - in August employment fell by 38,000 driven mainly by full-time job losses. But the level of vacancies remains high, and has been growing for six months, suggesting the worst may be over. Economists are forecasting that unemployment will move towards 8 per cent by the end of next year.

This may help Mr Howard relax, especially on trade matters where he has been pursuing a protectionist path, against the opinions of Peter Costello, treasurer. Mr Howard's stance on car tariffs, which will be slowly dismantled to 15 per cent by 2000 and then frozen until 2005, appeared to be vindicated after Toyota announced further investment at its Melbourne plant.

However the Industry Commission advocates accelerated tariff cuts, arguing that over the past 30 years the most protected industries - cars, textiles, clothing and footwear - suffered the slowest growth and the largest job losses. "There appears to be a negative link between industry assistance and employment growth," it said in a recent report. It pointed to the printing, publishing and media industry - which increased employment and experienced the biggest growth in output over the period - saying this industry also had the largest cuts in protection.

The Industry Commission's recommendations to cut tariffs on textiles, clothing and footwear were also rebuffed this year, with Mr Howard announcing a slow dismantling, along the lines of his car policy.

Nevertheless, Australia remains committed to the agreement by the Asia-Pacific Economic Co-operation forum for free trade by 2010, not surprising given that the country relies on the Asean region for around 55 per cent of its exports, or 11 per cent of GDP. The currency crisis in the region will have limited impact on Australia, according to Mr Costello. He points out that as exports to the region have been growing rapidly, by up to 20 per cent a year, any contraction will have limited effect.



"Any downturn in the region will have a slight impact but we don't expect any measurable effect at all," he says. "This has been a fabulous area of growth in the last decade or so. We have every confidence that it will continue to be a fabulous area of growth."

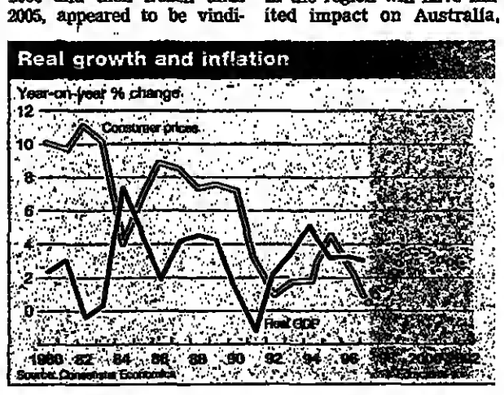
Growth in Australia itself has continued for six years, with the government confident of a seventh. Growth reached 3.2 per cent in the second quarter (year on year) compared with a revised 1.9 per cent in the previous period.

The opposition accuses the government of talking down the economy. Kim Beazley, opposition leader, says the coalition "actually induced a slowdown", a claim endorsed by Gareth Evans, shadow treasurer. "Their talking down of the economy has knocked the socks out of consumption."

Arthur Sinodinos, newly appointed as Mr Howard's chief of staff, admits that "sometimes our rhetoric hasn't been upbeat enough" but points out that Australia's growth is higher than any of the G7 countries. The Australian Bureau of Agricultural and Resource Economics (Abare) forecasts growth of 3.7 per cent for the year to the end of June and the Reserve Bank has also detected an upswing in confidence, saying businesses are expecting fourth quarter sales, especially in retailing, to pick up by 3 per cent.

Mr Costello says the deficit in June 1997 was 0.5 per cent of GDP and he expects a surplus in 1998/99 which he calls "an extraordinary achievement". His growth target is 4 per cent with inflation at 2-3 per cent. Underlying inflation at 1.7 per cent is below this target and at its lowest level in 30 years, prompting a confident prediction from Rod Kemp, assistant treasurer. "Australia has decisively joined the ranks of the low inflation economies and there will be substantial benefits arising from this."

Five interest rate cuts since July 1996 have brought Australia's official interest rate down by 2.5 per cent to 5 per cent and pushed the Australian dollar down, by 6.5 per cent against the US dollar between the second and third quarters. Economists expect it to strengthen again, helped by a rise in commodity prices.



FOREIGN POLICY • by Tony Walker

A happy engagement

After a slow start, the government is warming to Australia's role in Asia Pacific

Ask Alexander Downer, Australia's foreign minister, to list foreign policy achievements under his stewardship and he mentions progress towards resolving a bloody secessionist struggle on Bougainville in Papua New Guinea and initiation of a human rights dialogue with China.

Left unsaid, but almost certainly more significant than visible "achievements", is an education for the government in the realities of Australia's place in the world and in Asia, in particular.

The Howard government came to power determined to define foreign policy differently from its Labor predecessor which had made Asia the focus, especially in its latter period under the activist foreign minister, Gareth Evans.

The conservatives, by contrast, have emphasised traditional relationships in Europe, notably with Britain and the crown, and made more of the strategic partnership with the US enshrined in the Anzus defence treaty.

Australia, the new government argues, may be geographically part of the Asia-Pacific but its cultural and other roots are elsewhere. In other words, Labor had overcooked the Asian dimension to the detriment of other relationships.

Bot circumstances have helped balance the new government's perspective and a recent parliamentary white paper* on foreign and trade policy indicates the realities of Australia's position have re-asserted themselves.

"With the globalisation of the economy and the economic rise of east Asia, the currents of international commerce and of power and influence are shifting," the report concludes. "The next century offers great opportunities for Australia, especially in the Asia Pacific which is the region of the highest priority for the government."

A senior government adviser describes Australia's position as that of the "odd man in, in Asia", noting that two-thirds of the country's trade is with Asia; 100,000 Australians live and work in Asia; three quarters of one per cent of the entire Malaysian population was educated at Australian institutions; and 7 per cent of Singapore's population visited Australia last year - to name a few indications of engagement with the region.

"Those who see Australia simply scratching at the surface of involvement with Asia don't understand the phenomenon," he says.

Mr Downer provides a robust defence of the government's conduct of foreign policy, arguing that critics "misinterpreted" apparent early diffidence about Asia. If not a proselytiser in the way of his predecessor, Australia's foreign minister certainly subscribes to the idea that Australia's future lies largely in Asia.

He defines priorities as promoting trade liberalisation, building security partnerships to underpin economic development, and continuing to draw China into an active role in regional forums.

"Our objective is to ensure that China is fully engaged in the region and in that regard we obviously oppose notions of containing China," he says.

He rejects criticism that the government is soft on human rights, saying that a decision not to co-sponsor a resolution criticising China at the recent human rights commission in Geneva was taken for "practical" reasons.

"We are a practical, outcome-oriented government which believes that posturing on human rights is deeply cynical," he says.

The view from Canberra is of a relatively benign regional security environment but that is not to say there are not worries. Mr Downer lists his concerns as: instability on the Korean peninsula; tensions in the Taiwan strait; upheaval in Cambodia; conflicting territorial claims in the South China Sea; and the "unsatisfactory" situation in Burma.

"On balance the region is peaceful," he says. "But there are uncertainties which is why we put emphasis on security issues." Australia has an active security dialogue with most countries of the region and bilateral agreements with Thailand, Philippines and Vietnam.

As the recent white paper notes: "Any threat to the security of east Asia - from tensions, through sanctions to war - would have immediate and adverse effects on Australia's trade with its major export markets and, consequently, on the jobs and standard of living of individual Australians.

"Over the next 15 years these points of inter-connection between the security and economic dynamics of the region will grow, as will the web of inter-related security interests in the Asia Pacific."

A senior foreign policy adviser to the prime minister says critics misunderstood the new government's early priorities, chief of which was "getting the US relationship right". Because of its emphasis on Asia, Australia had been reluctant to speak about the importance of the US alliance.

"We wanted to get reality and rhetoric together on the US," he says. "We find ourselves in a new strategic environment after the Cold War: we have a more assertive east Asia, a more fluid environment in the region, the end of an era approaching in Indonesia and China finally beginning to assert the influence which is rightly theirs.

"The point we have to get across to China is that if the region is to be comfortable with its growth, it has to feel secure and confident about its intentions. We are very pro China's emergence so long as it's not damaging to others."

**In the National Interest: Australia's Foreign and Trade Policy White Paper. Commonwealth of Australia, 1997.*

TARIFFS • By Tony Walker

End to great barrier grief

Australia sees continued reductions in tariffs under an Asia Pacific Economic Co-operation (Apec) forum formula, as vital to its economic well-being.

A parliamentary white paper* on trade policy says lower barriers world-wide create opportunities not only for the goods and services which Australia directly exports, but also for goods which other countries produce using resources from Australia.

Australia has progressively lowered tariffs with the aim of satisfying a timetable in the Apec Bogor Declaration of 1994 setting a target of free and open trade for all countries in the Asia Pacific by 2020.

Asean countries have cut their tariffs on a trade-weighted average by about two-thirds between 1988 and 1995.

The white paper says Australian manufacturers have responded to tariff cuts by increasing productivity and redoubling efforts to break into international markets.

Tariff cuts had, on the whole, brought benefits outweighing costs although in some areas, such as textiles, clothing and footwear and motor vehicles, the government has delayed implementation to protect jobs.

The white paper cites medical and scientific equipment as an industry which has successfully weathered hefty cuts. Tariffs fell from 30 per cent to 5 per cent between 1987 and 1996 but the industry rallied twice that doubling exports to $700m in 1996 from $300m in 1987.

Employment has grown since 1993-94 and importantly, says the report, these jobs are "highly skilled and highly paid".

"As Australia depends increasingly on international trade and investment to sustain and increase its standard of living, trade and investment liberalisation is in Australia's best interests," the report says.

It notes that both Australia and New Zealand gained from increased trade after the formation of almost all trade barriers between the two countries under the Closer Economic Relations Agreement (CER).

INDUSTRY • by Tony Walker

Maintain the state of revolution

Government must maintain the pace of change if Australia is to prosper

Australian governments worry continuously about industry policy, commissioning report after report on ways to improve competitiveness. The present government is no exception.

But concern is one thing, commitment to reform is another. Indications the government may not be as zestful as its predecessor in efforts to sharpen industrial performance worry bodies such as the Industries Assistance Commission, the industry watchdog.

Bill Scales, chairman of the IAC, argues forcefully that in spite of government concerns about "reform fatigue" after the Labor era, it simply cannot afford to let up in its efforts to enhance productivity.

"Should we take a rest?" he asked in an address recently to the Australian Institute of Company Directors. His answer was an emphatic, "No".

"Because it takes time for benefits of reform to reach business and citizens, delays in reforms now will have significant consequences well into next century," he says.

"And, if we reflect on the reform agenda of the late 1980s, we would have to say only half done."

Mr Scales, who has spent much of his career in the manufacturing sector, presents a shopping list of what further needs to be done. Among priorities are the need for:

- Clarification of property rights to avoid further confusion over native title (see page 6) which is casting doubts on new mining projects and existing pastoral leases;
- Creative measures to encourage higher standards of environmental protection, including tradeable permits, environmental taxes and performance bonds;
- Unrelenting efforts to make the provision of goods and services more competitive for community benefit;
- Provision of efficient infrastructure, moving beyond planning to implementation;
- Priority to be given to workplace reform, removing regulations which inhibit the ability of good managers to reward, and motivate, their employees.

> "If we reflect on the reform agenda of the '80s, we have to say - only half done."

"Why is it that Australia needs more than 3000 individual awards, each acting as a specific industry safety net?" asks Mr Scales.

Australian governments, conservative and Labor, have been extraordinarily diffident about unravelling a tangled skein of workplace regulations out of concern about the economic costs of confrontation with the unions which might ensue.

Reluctance to tackle waterfront reform is perhaps the most conspicuous example of the need for change to working practices in Australian industry. Cargo handling costs at Australian ports are among the world's highest, due partly to outmoded agreements between employers and workers.

But, as Mr Scales points out, governments alone cannot be expected to accomplish workplace reform without broad community support, and the backing of business in particular.

"We must remove from our culture a desire to have the 'state' unnecessarily control the human relations within productive workplaces," he says.

"This is not a code for no regulation of workplaces, or the removal of unions from the workplace. It is a call, however, for recognition by those making and administering our labor laws that Australian workplaces have changed from those which were prevalent in the 1960s and 1970s.

"What this means in practice," he adds, "is that while a workplace regulatory safety net is necessary, the complicated set of industry specific awards should be urgently overhauled."

Micro-economic reform is also on the agenda; although it is not clear how much urgency is attached these days to pushing ahead with complex changes aimed at improving competitiveness.

Graeme Samuel, president of the National Competition Council, the body charged with monitoring implementation of a raft of micro-economic reforms agreed by federal and state governments in 1995, warned recently of the dangers of "losing our focus on the main game - of being so intent on rearranging the deck-chairs on the Titanic that we forget the more important tasks of turning the ship around".

While conceding that much micro-economic reform - breaking down barriers which constrain competitiveness - is "politically hypersensitive", Mr Samuel argues that the onus is on the government to foster community support for such reforms.

"It is pertinent to remind ourselves that political opportunism thrives in an environment of community ignorance," he says. "It has little scope to operate, however, in an informed environment where scare campaigns and self interested demands for government will be treated with the cynicism they deserve."

On the other hand, Mr Scales asserts, Australia has benefited hugely from a decade or more, of deregulation and micro-economic reform.

Among the benefits of enhanced competition domestically and greater engagement globally are: sustained economic growth (more than six years of GDP increases); low inflation; and an improved trade orientation.

Micro-economic reforms have yielded a substantial fall in the real price of telecommunications and electricity, along with the costs of services provided by Commonwealth and state governments.

Tariff reduction has brought down the price of motor vehicles. Removal of quotas on cars means consumers now have more than 100 models to choose from compared with about half that figure 10 years ago.

But as Mr Scales says: "More must, and can, be done to further the performance of the Australian economy, improve our productivity, and raise our standard of living."

Historical data

	1993	1994	1995	1996
Gross domestic product*	3.7	5.5	3.5	3.1
Private consumption*	2.8	4.6	4.6	3.0
Business investment*	3.0	18.0	19.7	16.7
Gross operating profits	10.1	10.2	4.8	7.8
Industrial production*	1.8	5.2	1.0	2.5
Consumer prices*	1.8	1.9	4.7	2.6
Average weekly earnings*	2.3	3.4	4.3	4.0
Housing approvals (000 units)	171	193	139	127
Unemployment (%)	10.9	9.7	8.5	8.0
Trade balance A$bn	−0.3	−4.4	−5.6	−1.3
Current account	−14.7	−21.9	−24.4	−19.2
Federal budget balance fiscal years A$bn	−14.5	−13.7	−11.6	−5.0
90 day bank bills (% end yr)	4.8	7.9	7.3	5.0
10 yr govt bond (% end yr)	6.6	10.1	8.5	7.4

Source: Consensus Forecasts

* % change on previous year

CONSTITUTION • by Tony Walker

Fomenting royal dissent

Republicans may be gaining the upper hand in the robust debate on the monarchy

To be, or not to be? Moves towards a republic are set for a more intense phase in the new year with the convening of a Constitutional Convention to consider a possible end to traditional ties to the British crown.

Not since the constitutional conventions of the late 19th century, which spawned the Commonwealth of Australia, an amalgam of six federated states, will constitutional issues be so hotly debated.

Republicans and monarchists have yielded little ground in a debate which has generated more heat than light but in the latter part of this year discussion appears to have become more focused; although Australians are far from a consensus.

Perhaps the most important recent development was the intervention of Sir Zelman Cowen, a former Governor General and constitutional authority, who came out in favour of a republic - surprising since he had served as the "Queen's man" and might have been expected to support the status quo.

In September, Sir Zelman endorsed ideas advanced in 1995 by then prime minister Paul Keating for a "minimalist" change to existing arrangements.

Mr Keating had proposed Australia appoint its own, largely ceremonial, head of state to replace the Queen. Australia's "president" would be elected by a two-thirds majority of the two houses of the national parliament sitting as one and the candidate would be recommended by the prime minister of the day.

As Sir Zelman said: "I believe the time has come in the evolution of Australia's independent national identity, for us to have a truly Australian constitutional head of state.

"It is important to underline the point that we would not be changing in any fundamental respect the way in which our country is governed. We do not contemplate an American-style executive presidency and we would retain our parliamentary system unimpaired.

"We would, however, have as head of state an Australian citizen or resident, who is exclusively ours and who fully, and unequivocally, stands for, and symbolises, our nation."

The debate about a republic is generating strange cross-currents and it is by no means certain Australia is on course for major constitutional change.

John Howard, prime minister and avowed monarchist, has not gone out of his way to facilitate moves towards a republic beyond implementing an election campaign promise to convene the constitutional convention. Two sessions will be held in February in Canberra with half the 152 delegates to be appointed by the government and the rest elected in a ballot to be conducted in December.

The basic question before the convention will be whether to end two centuries of formal ties with Britain. If it is decided change is desirable then the onus will be on the convention to recommend a new system to be put to voters by way of a plebiscite in 2000. This might sound relatively straightforward but it is unlikely to prove so in practice.

The convention will be fairly evenly poised between the two rival camps and consensus may well prove elusive. Judging by the verbal jousting in the lead-up, proceedings will be lively.

Sir William Deane, the present Governor-General, was described the other day by Bruce Ruxton of the Returned Services League as a "man of the chardonnay-drinking Left". Sir William had hinted he was in favour of a republic, anathema to Mr Ruxton whose creed can best be summed up as: "God, Queen, Country and Flag."

Malcolm Turnbull: A monarch "demeans Australia" Popperfoto/Reuters

Australia's last monarch? AP

Thomas Keneally, the writer who revels in his Irish origins, appalled monarchists by likening the Queen to "a colostomy bag" on the body politic. This remark was made on St Patrick's Day.

Mr Keating, who also has Irish blood, has been relatively quiet since his defeat last year but his description of opponents of a republic as "bootlickers and lickspittles" of the British nailed his colours to the mast.

Malcolm Turnbull, chairman of the Australian Republican Movement, has no doubt that in the long run Australia will become a republic but he acknowledges it will be difficult to persuade an innately conservative electorate that change is necessary, or even desirable.

He believes that it is "important all of Australia's national symbols and institutions are unequivocally Australian".

"It is demeaning to have a foreign monarch as head of state. It sends confusing signals to the region, it is a relic of the colonial days and it is the very antithesis of multiculturalism."

Australians for a Constitutional Monarchy, the main monarchist group, has other ideas and will put them equally forcefully. Apart from a misty-eyed attachment to the crown, this group fears change for change's sake and its main argument appears to be be "if it ain't broke don't fix it." This is not a difficult proposition to sell to a complacent electorate.

But monarchists and supporters of the status quo have to reckon with what appears to be something of a groundswell for a republic.

Recent opinion polls have shown increasing support for constitutional change.

Polls taken after the death of Princess Diana found that more than 50 per cent of Australians now believe their country should be a republic. In a poll conducted for *The Australian* newspaper 54 per cent were in favour, a jump of 5 per cent from June and the first significant shift in opinion for three years.

BANKING • by Elizabeth Robinson

Big four called to account

Reform is opening the sector, and the established banks, to fierce competition

Bankers in Australia are still digesting the possible impact of reform, introduced in September, bringing a new era of competition to the sector.

The cosy monopoly previously enjoyed by the big four banks of the deposit market will be opened to other financial institutions with regulation reformed to divert responsibility from the central Reserve Bank, copying the system already adopted in the UK.

Although the reforms, announced by Peter Costello, treasurer, and based on recommendations by Stan Wallis, a leading Australian businessman, are the most wide-ranging since the early 1980s, when deregulation allowed foreign banks to operate in Australia, the changes will not be introduced for two years, allowing the banks and their potential competitors time to jostle for position.

The Wallis inquiry was charged with introducing competition without compromising security. Its aim was to introduce efficiencies into a A$40bn system which, as Mr Wallis said, was only an "average" performer in world terms. The main thrust was to open banking operations to non-banks, allowing insurers, mortgage lenders and other financial institutions to compete head-to-head with banks for depositors' business.

Retailers and large companies are also likely to seek a slice. They will be able to offer the full range of financial services and recieve the same level of protection, provided they meet prudential requirements.

While this sounds ominous for banks, observers say that the structure will not change greatly. Richard Sheppard, deputy managing director at Macquarie, the investment bank, says the reforms "won't change life as we know it, but they might change life at the margins". New entrants, say observers, are more likely to seek out niche services, tailoring products for specific groups rather than trying to compete on a broader basis.

John Edwards, chief economist at HSBC Markets, says: "The granting of the banking licence is not a licence to run an institution that calls itself a bank but a licence to run certain facilities in the market."

The reforms recognise the blurring distinction between banks and non-banks and set out regulations to cover the growing penetration of new payment systems, such as stored-value cards and electronic purses.

The banks themselves are aware of the need for change. Don Argus, managing director of National Australia Bank, the biggest in the country, recently said that the existing bank model was of no relevance to the future. His bank has already entered the insurance market, launching its own home policies through an alliance with HIH Winterthur.

NAB was disappointed by one omission in the reforms - the government is maintaining the "four pillars" policy that forbids the big four banks from taking each other over. NAB has long argued for the formation of financial conglomerates to bring greater efficiency. ANZ and Westpac are perhaps the most vulnerable of the four to takeover. In theory foreign takeovers are allowed but, in practice, these are unlikely in the short term. The treasurer has retained the right to approve stakes exceeding 15 per cent, meaning a foreign bank would have to buy either 100 per cent or less than 15 per cent in any venture.

Consumers are likely to feel some changes resulting from the reforms, however. For a start, fees and charges are likely to rise as the treasurer has removed formal central monitoring of bank fees. Mr Argus of NAB is at the forefront of the "user pays" charging wave. "We are entering a user-pay environment," he says, stressing that his bank wants to reward loyalty and change the fee structure.

While banks will be free to set their own fees, increased competition may make it difficult for them to do this in some areas.

Aussie Home Loans is Australia's biggest non-bank with a A$5.5bn loan portfolio built since its formation, in 1992. John Symond, managing director, says non-banks already have around 14 per cent of the mortgage market and in the near-term "every month or two we'll roll out a new product". The group will be offering most bank-like products, extending into general insurance, car and personal loans.

Mr Symond's group has waged an aggressive campaign attacking bank fees and charges and warning that banks will be forced to raise their fees in less competitive areas. "In home lending, banks' margins have contracted by A$2.8bn a year," he says. "Most are recouping this in fees and charges. Until there is competition in other areas, the banks will continue with high fees."

The regulatory system has also been reviewed, with the formation of two new bodies - the Australian Prudential Regulation Authority, which will oversee the safety of all financial institutions; and the Australian Corporations and Finance Services Commission which will ensure consumer protection and act as a market regulator.

A third supervisory role - that of regulating the payments system - will continue to be conducted by the Reserve Bank. States will be asked to surrender regulation of credit unions, mutuals and building societies, so that smaller financial institutions come under the same federal umbrella.

The regulatory reshuffle brings the Australian system more in tune with changes in banking, recognising the growing importance of non-banks and supervising their security. However, Mr Sheppard says that while the Wallis reforms have helped address increasing efficiency, more needs to be done to unlock the value in the system

"The tax system needs to be fixed outside the Wallis terms of reference," he says. "That's what leads to inefficiencies. It's the multitude of taxes that need to be reformed that impede efficiency in the banking system."

PRIVATISATION • by Elizabeth Robinson

Sharecroppers to shareholders

Privatisations aimed at the public are fuelling the growth in share ownership

The past 12 months have seen the participation of Australians in share ownership grow to levels rivalling other major western economies, such as the UK and Canada. More than one third of adults, or 4.7m, now hold stock, according to the Australian Stock Exchange.

And with forthcoming floats such as Telstra, the telecommunications group, the level of private investment will increase further, adding impetus to the country's capital markets. These will also benefit from the government's sell off of non-core assets, such as airports and its car fleet, in a privatisation campaign through trade sales or public offers.

The sale of Telstra in November, which is expected to reap around A$14bn for the government, will be the biggest sale in the world over the next 12 months.

John Fahey, finance minister, is determined that the Australian people should be the main beneficiaries. He has called the sale "the people's float" and pledged that in the event of oversubscription and allocations having to be scaled back, the sale will be weighted so that small investors receive "as close as possible to the number of shares they applied for" with institutions facing limits on their holdings.

With the shares expected to trade at a premium, and no further tranches to be considered in the government's present term, the success of the sale is bound to become an issue at the next general election.

Coping with the heightened interest is the country's main exchange, the ASX, which last year announced it would dismantle its membership structure ahead of a planned demutualisation. As part of the change to a shareholder-owned company, it is reviewing its pricing structure to ensure that future revenue will cover costs, capital expenditure and dividends.

Apart from the big floats, the ASX is also setting up a new primary market for smaller companies so they can raise capital before listing on the main board.

Using the internet as an electronic noticeboard, companies looking for capital will seek out providers and vice versa. "The future of stock exchanges, even more than the recent past, will be driven by technology," the ASX said in its annual report.

The ASX has come a long way since 1987 when the six state stock exchanges merged into one market. The market's capitalisation is now equivalent to 76 per cent of gross domestic product, compared with 44 per cent in 1986, and its turnover in the same period has grown to A$212bn from A$40bn. But Maurice Newman, ASX chairman, is not complacent. He has warned of the growing threat of exchanges in other countries claiming to be financial centres for the region, and has called upon the government to reform tax on securities trading and capital gains.

"How many jobs could have been created or ventures begun if our tax laws did not penalise risk?" he wonders.

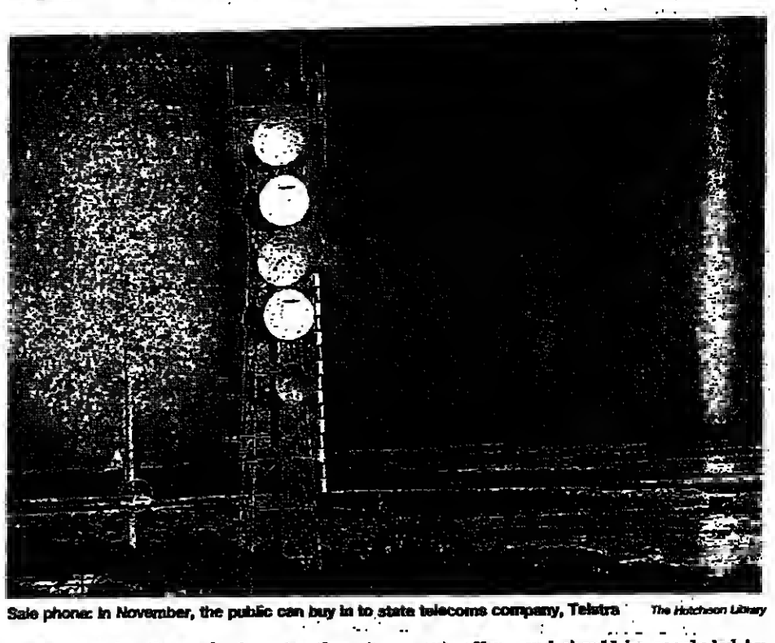
Another exchange, the Sydney Futures Exchange, has taken an innovative approach to its products and services in an attempt to rival Simex in Singapore as the region's main futures market. In terms of numbers it has seen some success with 25.5m trades in 1996.

In September it launched its first energy contracts, based on the deregulated market which saw power starting to flow across state borders allowing generators and consumers more freedom of choice in supply and purchase. The contracts, based on those already developed for the New Zealand Futures and Options Exchange, which the SFE owns, may be the blueprint for future contracts based on the gas and coal industries when they deregulate.

Les Hosking, SFE chief executive, eagerly awaits this expansion: "Coal is the prize," he says, pointing out that Australian coal prices are currently set annually and there would be great demand for spot prices.

The SFE hopes the recent El Nino weather system, which has caused lower than average rainfalls in the Pacific region, will result in renewed interest by Australian commodity producers in their domestic exchange. It points out that, for example, in wheat, Australian consumers and producers seeking hedge positions would manage risk better if they traded wheat futures on the SFE, as prices in Australia rose while those in the US fell. This would also hold true for crops such as sugar and cotton, according to Mr Hosking. "If you are a wheat producer and selling in Australia, then using a US-based futures market is entirely inappropriate," he says.

Meanwhile the government's trade disposals of assets has gathered pace, spurred by its successful sale of three main airports, Brisbane, Melbourne and Perth, earlier this year which raised A$3.3bn. It hopes to conclude the next phase of its airport disposal programme by the end of June, selling 15 regional facilities.



Sale phone: In November, the public can buy in to state telecoms company, Telstra *The Hutchison Library*

But the main prize, Sydney, is still not on offer. Disposal of the country's biggest airport remains on hold until a noise amelioration issue is settled and a decision on siting the city's second airport is made.

Another transport offer due by the end of the year is the National Freight operations, while the sale of an 18,000-strong car fleet to Macquarie, the investment bank, has already raised A$420m.

Mr Fahey says an inquiry into Australia Post and its products is also under way and should be concluded by March 1998.

But he stresses that the government programme is not to fund recurrent expenditure and has no impact on underlying debt. "What it comes down to," he says, "is the question of 'Is this a business the government should own?'"

ENERGY • by Elizabeth Robinson

Determined to hold on to power

Green concerns are drowned out by the currency generated by energy exports

Australia's heavy reliance on energy-intensive industry and energy exports is leading it on a collision course with other countries in the greenhouse gas debate likely to come to a head at the global warming conference in Kyoto in Japan in December.

The stance taken by John Howard, prime minister, is for differentiated emission targets for each country, in contrast to the proposals by the European Union for mandatory, uniform targets. Mr Howard argues that, "Australia is almost in an atypical position because of our enormous exports of energy."

Energy commodities account for more than 12 per cent of Australian export incoms, according to the Australian Bureau of Agricultural and Resource Economics, with 61 per cent of these going to Asia, chiefly for electricity generation. Abare values Australia's exports of minerals and energy at A$36bn and forecasts this will rise to around A$43.8bn by 2002 thanks to increasing demand from Asia.

Tbe forecast growth in demand for thermal coal, liquefied natural gas and uranium is being matched with increasing expenditure on energy exploration, which Abare says has grown 37 per cent in four years.

Earlier this month the governmeot gsve the go-ahead for exploitation of the coutroversial Jsbiluka uranium deposit owned by Energy Resources of Australia. The mine is within the Kakadu National Park in the Northern Territory and ERA still faces negotiations with local aboriginals over the mineral leases before tbe mine can start operating in 2000.

The green light to Jabiluka, which ERA says will generate sales of A$12bn over 28 years, restarts a push to exploit Australia's uranium reserves, whicb had faced restrictions for 13 years under the former Labor government.

Australia has around 30 per cent of world resources of uranium but only 10 per cent of the market. Uranium production this year is forecast to rise 11.8 per cent to 6,700 tonnes, according to Abare, but, because of lower prices, exports will slip slightly to A$240m.

By contrast, growth of the Australian coal industry has slowed, with production increases easing to an estimated 3.6 per cent this year after last year's 6 per cent rise. The industry has withbeld expansion because of lower global prices and poor profitability while its prospects have slso been blighted by long-running industrial disputes. However, it still bopes thst greater demand for energy in Asia will lift exports.

Japan, Australia's largest customer, is likely to seek further price cuts when talks are held by the end of the year, arguing that demand for steel in the regioo will fall because of the downturn of Asian economies this year. Nevertheless, Abare expects a 7 per cent rise in coal exports this year to 156m tonnes, reaping some A$8.4bn.

Australia enjoys fourth place in the world for production of liquefied natural gas, producing 7.5m tonnes, or just more than 10 per cent of tbe world market. Demand for LNG is rising rapidly with some observers believing it could double in the next 15 years fuelled by rising consumption in Asia.

And this demand is unlikely to be hit by environmental concerns. LNG is considered one of the cleaner sources of energy with the large North West Shelf reserve, which is undergoing expansion to produce 7m tonnes a year by 2004, accounting for just 1 per cent of Australia's greenbouse gas emissions.

Shell Australia and Woodside, the Australian oil and gas company, are planning the construction of a A$10bn LNG plant near Darwio which they claim will rival the North West Shelf for output. These developments, along with the Gorgon and Bonaparte basins which will be capable of producing well in excess of 10m tonnes a year within 10 years, have not been stalled by this year's falls in LNG exports by value largely because of lower oil prices. Abare forecasts that LNG exports this financial year will be around A$1.46bn compared with A$1.54bn last year.

Wben Mr Howard announced his approval for Jabiluka be called it "a pro-jobs, pro-development decision that is entirely consistent with the commitment we have to the environment". It is this commitment to jobs that appears to define his stance on greenhouse gas emissions. He has already come into conflict with his South Pacific neighbours, who reluctantly agreed st s 16-nation forum to sccept Australia's stand against mandatory uniform targets, despite their concerns about rising sea levels threatening some of tbe low-lying islands.

Mr Howard rejected mandatory targets, as proposed by the EU, saying: "There is s call that Australia's growing economy be burdened with a new, unrealistic and unfair speed limit opoo growth."

Australia is responsible for 1.4 per cent of global greenhouse gas emissions but Greenpeace, the eovironmental group, says that per head of population the country is one of the highest polluters in the world as 90 per cent of the electricity system is coal-fired.

Instead of the EU's plan that all countries cut emissions by 15 per cent from 1990 lsvels by 2010, Mr Howard wants "achieveable and equitable" targets but this request that every country negotiate its own limits has been widely rejected as too complex. Japan recently outlined its positioo, suggesting a 5 per cent cut from 1990 levels, resulting in the likelihood of Mr Howard being s lone voice at Kyoto.

The Australian Conservation Foundstion estimates that Australia could achieve cost-effective cnts of up to 20 per cent by 2010. By then Australia's biggest experiment with greener methods will have been judged.

Fall out: Mr Howard has approved increased uranium extraction

The showcase Olympics in Sydney in 2000 will feature ths world's largest village powered by solar energy. The athletes village at the Olympics site in Homebush is to be fitted with 665 solar photovoltaic systems in Australia's first large-scale grid connection of solar energy.

Each house in ths village will be able to draw power direct from its solar cells but will also be connected to the grid allowing it to draw electricity when demand exceeds supply, or to feed energy back into the grid when the complex is generating a surplus.

TELECOMS • by Elizabeth Robinson

Communications breakdown

As deregulation in the sector speeds up, the scramble is on for market share

As ths competition hots up in Australian telecommunications, so dos the litigation.

The market is in the home stretch for full competition now that a new regulatory regime, introduced in July, has removed restrictions on Telstra, the dominant company, imposed by the government in 1991 to allow operators, such as Optus and Vodafone, to become established.

The firms now jostling for market share are using every tactic - technology, marketing, services and even lawsuits - to gain a footing.

Telstra has conceded that it will lose market share but it has its own growth tactic to consider, the listing in November of one-third of its shares.

The new regime makes no distinction between services, therefore Telstra can compete equally on pay-TV with other providers, as well as on more traditional telephony. Telstra says the new regime frees it to get all the value it can from economies of scale in the industry.

Its search for such economies has prompted Optus, its closest competitor, to launch a lawsuit for around A$900m claiming Telstra is abusing its dominant market position. One of Optus's allegations is that Telstra is cross-subsidising its loss-making Foxtel cable TV operations from its local call revenue. Optus claims: "Foxtel was established soley to attack one of Optus' reveoue legs." Telstra bas yet to respond to tbe suit, which will be heard in March at the earliest.

Optus has named pay-TV as its most urgent issue but says it will be years before it reaps any profits from the unit, Optus Vision. The division last year reported losses of A$387.9m and contributed to a A$423m sbnormal loss at the parent level as Optus wrote down some of its investment.

However, Peter Howell-Davies, outgoing chief executive, stressed the value of Optus Vision saying it would allow the company "to move forward with our plans to provide customers with a complete and seamless bundle of Optus-branded products - from a full telephone service to pay-TV and internet access".

Optus has rsnewed confidence thanks to backing from Cabls and Wireless, the UK group which doubled its stake to 49 per cent in July. C&W has earmarked the company as a springboard for growth in Asia, giving Optus a powerful shareholder committed to its success.

The Australian company is also trying to defend its pay-TV operations by disputing the proposed merger between Telstra's Foxtel, a joint veoture with News Corporstion, and Australis. Optus received a setback earlier this year wheo the Supreme Court rejected its plan to share satellite infrastructure with Australis, resulting in Optus having to build its own satellite system.

The operator has since been vociferous in demanding s review of Australia's pay-TV market. It argues that it has not been a successful product for customers, as each provider can offer exclusive content whicb leads to high rates of churn, for example among sports fans wbo might have to switch providers to follow their favourite sport.

Another area for conflict is local number portability, the system whereby customers can switch between services but retain the same phone number. The federal government stepped in in September to rule that Telstra should underwrite the cost of switching numbers and offer the service by May. Optus is keen that the service is operating before that date but Telstra insists that an earlier deadline would be at the expense of accurate testing. Although Tslstra is resigned to losing some market share, holding rival operators off until May 1 will at least contain that.

Telstra still enjoys a virtual monopoly on local call access, with Optus and other providers having to pay it an interconnect fee. There are some 6.6m lines in Australia, with only 12,000 using Optus for local calls. Telstra currently offers customers, such as Optus, a 15 per cent discount on local call access but, as Optus cables run past only one third of Australian bomes, Telstra will remain in a strong position with guaranteed revennes for some time to come.

Over the past four years Telstra's market share has slipped by around 3 per cent a year, to around 83 per cent, but the group has factored further erosion and potential litigation into its plans for flotation.

The November sale of one-third of its shares will be the biggest offer in the world over the next year with estimates of a gain of up to A$14bn for the government. Further tranches may be considered but the government will likely make them an issue at the next election, hoping to win the favour of the "mums and dads" voters who are likely to profit handsomely from their investmeot.

In its prospectus Telstra forecast profits in the year to June 1998 to rise to A$2.8bn, from A$1.62bn last year. Telstra, like Optus, has seen its profits held back by pay-TV losses and has warned that it will not see gains from that arm "for several years". It will surprise no-one if Telstra's market share slipped to 60 per cent over the next five years, from around 80 per cent at present, but the reduction will be in the context of a market which is expanding overall. According to Telstra, industry revenue has grown from A$13bn in 1993 to A$17.3bn last year.

Optus will be a close observer of the Telstra sale, as it will help put a value on its own float, which has been put back several times. A new chief executive, Chris Anderson, takes over in October and he is likely to see Optus through a float within the next three years.

SPORT • by Elizabeth Robinson

In pursuit of a new gold standard

The 2000 Games will showcase host nation talent in and around the Olympics

Michael Knight, the Olympics minister, recently told foreign correspondents that: "Three years out from the games we think we are in relatively good shape." He was referring to the massive project at Homebush, site for the 2000 Olympics in Sydney, where construction of the stadium and infrastructure is costing A$3m a day and is due for completion by the end of 1999.

Homebush is not the only thing shaping up for the games, however. Long before Sydney was even chosen as the site for the 2000 games, Australian athletes were aiming for gold. Australia's bosting of the games has given them extra impetus and the country's aim is to be in the top five of the medal league table.

The government has given A$135m to help fund athletes in the run-up to the Olympics, on top of the annual bodget of around A$10m for the Sports Commission, the government-run body responsible for interpreting sports policy. That policy is to encourage wide participation, as well as identify and nurture the elite. Australia has 110 major sports organisations, most of which receive funding from the Sports Commission with high-profile sports such as swimming and basketball receiving around A$3m a year.

Tha Sports Commission tops up government funding by raising around A$3m a year through its own programmes and receives another A$1m of what it calls 'value in kind' from sponsorship, sucb as travel concessions.

The Australian Institute of Sport is the public face of the Sports Commission, a hallowed campus where the elite are identified and trained and where sport is treated as a science to make the best better. The institute was formed 16 years ago in an effort to haul Australian sports into top gear after a disastrous sbowing at the 1976 Olympics in Montreal. The high reputation that the AIS now enjoys, and the excellence that is associated with it, is used by the Sports Commission in its marketing and fund raising.

A product endorsement programme brings in 'hundreds of thousands' in royalties, according to Neil Gray, who heads the marketing for the Commission. Tha AIS logo appears on products ranging from vitamins to cereal and sports bras.

The rewards for a company using the AIS logo are high, says Mr Gray - a survey in 1996 found 95 per cent of Australians recognise the institute and around 60 per cent said they would buy products carrying the logo. The commission started the endorsement programme in the early 1980s, with Speedo one of the first to sign. The buy-in price now for e company wanting to use the AIS logo is around A$20,000 but other deals are on a royalty basis that can bring in more than 100 times that.

The programme can also belp the AIS in more ways than funding: for example IsoSport paid for a researcb fellowship in the AIS's science department that resulted in an isotonic drink now in commercial production and carrying the AIS logo. "Our relationship with corporate Australia is developing all the time," says Mr Gray.

Fast lane: Kieran Perkins is one of the elite who will be going for gold in 2000 — Simon Bruty/Allsport

The Commission distributes funding to sports committed to certain goals, such as membership levals or updating policies or technology. But it tries not to be too prescriptive. "We feel it is important they should have ownership," it says.

The Olympic Athlete Programme within the Sports Commission was set op in 1994 specifically for the 2000 games.

David Lalor, co-manager of the programme, says Australia wants to field as big a team as possible at the games and aims to win 60 medals, including 20 gold (in the 1996 Atlanta games Australia won 41 medals, including 9 golds).

The squad for the 2000 games bas already been identified and out of the present 900, some 600 will go on to represent Australia at the Sydney games.

Mr Lalor says his role extends beyond the 2000 games as the ultimate aim is to create a legacy of e high performaoce culture, embodying quality coaching, education and development of sports science.

SPORTS ACADEMY

Youngsters with stars in their eyes

Australia hopes that by encouraging greater sports participation excellence will shine through but it is not leaving such matters to chance.

The country's talent identification scheme hopes to avoid what it calls the 'collision' factor, of a few talented athletes falling into their particular sport by accident. Instead it aims to identify, at an early age, which children could potentially be the next Kieren Perkins of swimming or Cathy Freeman of running.

Every year each of Australia's 2,000 high schools is invited to participate in the talent spotting and, on average, around 800 reply. Nine talent search co-ordinators then conduct eight tests on more than 10,000 children, usually at around the age of 14, and about half of these will be invited back for more testing. The first round of tests will usually be simple timed runs but the next stage of testing will be more scientific measurements.

Debra Hoare who runs the programme says the scheme has been going since 1991, with athletes for the 2000 games being targeted in 1994. This has given her a database which is becoming more valuable every year in identifying which sports respond best to the system. The children are then inducted into the chosen sport for around three months and, if they continue to show aptitude, they spend one or two years in intensive training.

Ms Hoare says that since 1994, 2,077 athletes have been placed in such programmes and around 35 per cent remained. In particular, around 40 per cent of the national rowing team has come from the identification programme.

The scheme, says Ms Hoare, is best at identifying sports stars for athletics or cycling and rowing but the programme has also identified the participants for the 2000 women's weightlifting team. "It makes sense for us to target the 'softer' events," she says. "Medals on an international scale are easier to get in these sports. And at the end we will be judged by our medal tally."

Ms Hoare also travels to other countries to advise on how they, too, could run talent identification schemes, which brings in consultancy fees for the AIS.

However, most of the countries she advises are a long way from offering the same service. "You can identify as many talented athletes as you want but if you don't have the infrastructure you're not going to get anywhere," says Ms Hoare.

The next big area to be researched, she says, is identifying talent for team sports. A programme for netball and basketball has been started.

The testing of high school children to channel a few into certain sports seems extreme but Ms Hoare says: "You're never going to be succcessful in elite sport unless you're prepared to go out on a limb."

Elizabeth Robinson

NATIVE TITLE • by Tony Walker

Title fight set to go the distance

The land claims issue rumbles on in spite of efforts to referee a compromise

Native title might sound like a relatively innocuous phrase but for the government there is hardly a more vexed issue than the imbroglio arising from the claims to land by indigenous Australians and the resultant court rulings.

Since the High Court ruled late last year that pastoral leases do not necessarily extinguisb native title, thereby raising the spectre of legal challenges across the country to the validity of such leases, the government has been seeking ways to contain the possible fallout.

In early September, it introduced the Native Title Amendment Bill to implement a 10-point plan which seeks to protect farmers and others, including miners, involved in the legitimate commercial use of leasehold land.

Senator Nick Minchin, parliamentary secretary to the prime minister, says amendments to the Native Title Act of 1994 are aimed at providing "certainty to pastoralists so they can carry on primary production activities".

"The Government has had to balance e range of competing interests in pursuing a response which is in the overall national interest," says Sen Minchin, who has responsibility for sorting out the potential mess.

But the negative reaction to the amendments from primary producers and native title claimants indicates government has some way to go before it satisfies the two sides, if that is possible without further High Court action.

Mr Howard, in his efforts to garner community support for the amendments to the Native Title Act, pointed out that, even under his 10-point plan, 78 per cent of Australia was potentially open to native title claim. Of the 78 per cent, 42 per cent made up pastoral leases.

The High Court said its ruling was aimed at ensuring "coexistence" with farmers' and miners' rights to utilise the land protected whilst upholding the Aborigines' traditional right of access.

But much of rural Australia sees it differently, regarding the ruling as a threat to livelihoods and a recipe for disaster. Donald McGauchie, president of the National Farmers' Federation, told a parliamentary committee last month that sharing title is unworkable and farmers must reject amendments to the Native Title Act.

The mining industry has also weighed in, warning that uncertainties would discourage investment.

In a submission to the parliament committee, the Minerals Council of Australia said the amendments would leave miners vulnerable to open-ended compensation claims and do nothing to end the administrative nightmare of multiple and overlapping native title claims.

"The economic cost of delay and frustration resulting from innefficient and uncertain processes will significantly bias investment decisions to other competitive environmants," the MCA said.

On the other hand, Aboriginal groups and supporters are protesting over the amendments which, they say, dilute the original Native Title Act and are inimical to the interests of native Australians.

The amendments will almost certainly face legal challenge before the High Court. The uncertainty and angst is set to continue.

Lebanon

Frustrated Lebanese are becoming tired of waiting for evidence that their country is making progress on the long road back to prosperity, writes **David Gardner**

The mood starts to turn sour

The mood in Lebanon is turning sour. Seven years after the end of the bitter 1975-90 civil war, the country is still trapped in the unresolved conflict between Israel and Syria being played out on its territory.

The Lebanese are waiting with growing frustration for evidence that the country's reconstruction drive, which is straining public finances to the limit, will restore Lebanon to its privileged pre-war position as a middle-income services economy intermediating between the Middle East and the west.

Only two years ago, the $80bn reconstruction strategy, centred on rebuilding a shattered Beirut into the regional capital market for the Middle East, looked on track. Rafiq al-Hariri, the construction billionaire who emerged with Syrian backing as prime minister in October 1992, had survived challenges to his authority from the surviving warlords and sect chieftains.

Through a mixture of self-belief and self-promotion, he convinced probably a majority of Lebanese they still had a country with a future.

Physical reconstruction of the shredded infrastructure has made palpable advances, even if little of this is yet visible. As Fuad Siniora, finance minister, argues: "If you're building a road, nothing is there, however much you spend or effort you make, until you've finished it and opened it for traffic."

Mr Hariri says defensively that the maximum hold-up on any project is the one-year delay in rebuilding Beirut's international airport.

He can also claim to have restored Lebanon's credit in the markets and the stability of its currency, after hyper-inflation virtually wiped out the middle class.

But the feeling that progress is being delayed goes beyond reconstruction. Two years ago, there was a better than even chance of a comprehensive peace deal in the region. Now, following the election in Israel 18 months ago of Benjamin Netanyahu and his coalition of extreme right-wing nationalists and religious fundamentalists, there is almost none.

More particularly, Syria, Lebanon's overlord, was then close to a deal on the return of the Golan Heights, captured by Israel in the 1967 Arab-Israeli war.

This, the thinking then went, would have enabled Lebanon to conclude peace with Israel; led to Israel withdrawing from the "security zone" it occupies in southern Lebanon; and pressured Syria into pulling back the 35,000 troops it deploys to control Lebanon.

Instead, Syrian-licensed Hizbollah guerrillas have escalated their attacks on the Israeli occupation to increasing effect. The Israeli army has suffered losses this year comparable to the casualties it sustained in 1985, when it retreated to the south under heavy attrition after the full-scale invasion of Lebanon in 1982.

Hizbollah, a Shia Islamic fundamentalist movement inspired by Iran's revolution but born of that Israeli invasion, has widespread backing across Lebanon's 17 different communities as a national resistance force.

It serves Syria as a reminder to Israel that regional peace requires the return of the Golan. But its campaign also keeps Lebanon in constant fear of Israeli retaliation, such as the 17 days of air, land and sea bombardment of south Lebanon and south Beirut in April last year.

The pall of war and destruction still hangs over the country.

The effect of the Israeli occupation and the conflict in the south is not only to hold up reconstruction and deter investment. One effect of "the resistance" is to hold the country together amid resurgent sectarian tension. But many local politicians and analysts maintain that the fighting in the south also serves to postpone "an incipient social explosion", as one puts it.

According to this argument, tension is building up because of frustration at uneven and inequitable economic progress, anger at the heavy hand of Syria and the corruption of the Lebanese political class which serves it, and the civil war rivalries which were preserved in modified form in the post-war revamp of the confessional system.

The Maronite Christians started the war to conserve their dominance over Shia and Sunni Moslems, and have yet to come to terms with their defeat. Power was redistributed from an executive Maronite president (now little more than a figurehead) to a Sunni prime minister (Mr Hariri) and a Shia speaker of parliament (Nabih Berri, the pro-Syrian former militia leader, whose power base is being eroded by Hizbollah's surging popularity). Cabinet and Parliament are parcelled up ostensibly to represent all communities. But this year's elections confirmed that Damascus will only tolerate politicians stamped with Syria's imprimatur.

Syria's tutelage has reconsecrated the confessional system in order to preserve its own role as arbiter between the quarrelsome sects. "The Syrians want to play the referee in a sectarian game to demonstrate their indispensability," says one veteran politician.

The old, neo-feudal political class has been leavened with technocrats at government level. But this has only served to break down the implicit contract between clan leader and followers under the old client system, and to intensify personal rivalries. One recent cabinet meeting was brought to a halt when a former militia leader attempted to beat up a technocrat over blocked payments to his ministry.

Mr Hariri himself, although not part of the old system, has failed to break Syrian constraints and generate a new national consensus. New leadership, especially in the disgruntled Maronite community, can not emerge. There is a complete divorce between the government and its officials, and a society which is trying to find its way alone," says a former government official. "After the last election, nobody even tries any longer to achieve anything by democratic means."

Evidence of that divorce has come in a variety of forms. When the Pope visited Lebanon in May, more than 500,000 Lebanese of all confessions poured into the streets. But, as Cardinal Nasrallah Sfeir, the Maronite patriarch, puts it, "what this visit has shown is that the Christians are still here."

The summer's pan-Arab Games were intended to show off an emblem of reconstruction, the new sports city in the teeming, southern suburbs of Beirut, Hizbollah's urban stronghold. But after Syria's football team beat Lebanon, and Lebanese supporters threw their weight behind Jordan in the next round, anti-Syrian rioting ensued from the suburbs to the (Sunni) northern port of Tripoli.

Lebanese anxiety about Israel, moreover, is divided: fear of Israeli retaliation is balanced by a fear that Israel may withdraw from Lebanon, which seems paradoxical except for those caught between Israel and Syria.

The Netanyahu government has twice signalled that Israel might pull out of Lebanon. The government has responded by tightening the screw on internal dissent it fears would then be concentrated on the Syrian occupation.

Apart from Syrian oversight of the parliamentary elections, two examples stand out. The anarchic proliferation of broadcasters inherited from the war has been whittled down to four. But these are in the hands of senior government and clan figures, including Mr Hariri and his Future Television. The government has used the army to break strikes, intervening in the unions to topple elected leaders and replace them with pliant allies.

Against this background, Mr Hariri has tried to speed up reconstruction and spend more on social priorities such as education and health. His endeavour still commands impressive international support. But internally, he is up against sectarian-institutional gridlock, and sharply deteriorating public finances.

The net ratio of government debt to (estimated) gross domestic product has risen from 35 per cent at the end of 1992 to 91 per cent at the end of June.

The deficit to expenditure ratio has each year overshot its target by 10 to 15 percentage points: it is supposed to drop from 51 per cent last year to 36 per cent this year but looks as though it may exceed the 1996 overspend.

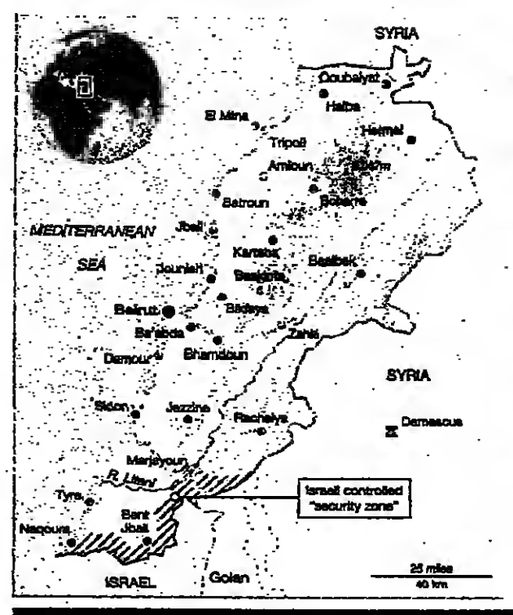
Deficit financing is inseparable from the scale of reconstruction needs. And still the Lebanese diaspora pours in about $7bn each year to cover a trade deficit averaging $6bn which is also associated with reconstruction. But the inflows are pulled in by a period of rapid growth in real estate, and government financing needs.

This is keeping real interest rates high, crowding out private investment, halving economic growth which in 1992-95 was averaging nearly 7 per cent a year, and inhibiting development of a broad-based capital market.

To ease the jam, Mr Hariri last month sought authority to raise new long-term loans in international bond markets which have so far been receptive to Lebanese paper.

But this was blocked in cabinet before it even reached the fractious parliament.

It is always a mistake to underestimate the resilience and the nimbleness of the Lebanese. But, for the moment, the government's declaratory optimism about the country's future so contrasts with the gloom of its citizens that the visitor is sometimes left with the impression that official and private Lebanon are two different countries.



- Area: 10,452 sq km
- Languages: Arabic; English and French are widely spoken
- Population: 3.6 million (1995 estimate)
- Currency: Lebanese pound (L£)
  Exchange rate: 1996 av 1$ = L£1,571.5010
  October 17 1997 1$ = L£1,537.5000

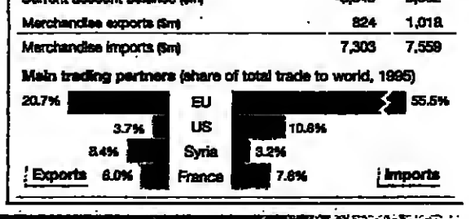
Main towns and population (1991 estimates)	
Beirut (capital)*	1,500,000
Tripoli	200,000
Sidon	100,000
Tyre	70,000
Zahle	30,000

* 1995 estimate

Economic summary

	1995	1996 (est)
Total GDP ($bn)	11.0	13.0
Real GDP growth (annual % change)	7.0	4.0
GDP per head ($)	3,133	3,615
Inflation (annual % change in CPI)	13.0	9.0
Three month treasury bills (%)	16.0	14.3
Foreign exchange reserves ($m)	4,533	5,932
Total foreign debt ($m)	2,966	8,739
Current account balance ($m)	-5,549	-5,682
Merchandise exports ($m)	824	1,018
Merchandise imports ($m)	7,303	7,559

Main trading partners (share of total trade to world, 1995)



Constitution

- Form of state: Parliamentary republic
- Legal system: Based on the 1926 constitution (with amendments incorporated in 1990) and the Civil Procedure Code, the Criminal Procedure Code and the Penal Code
- National legislature: Under the electoral law of July 16 1992, the unicameral National Assembly has 128 seats equally divided between Christians and Moslems
- Electoral system: Universal direct suffrage over age 21
- National elections: August-September 1996; next elections due by August-September 2000
- Head of state: The president, currently Elias Hrawi, was elected in November 1989 for a six-year term by the National Assembly. His term was extended in late 1995 by three years. The president must be a Maronite Christian
- National government: Prime minister chosen by the president after consultation with parliamentary deputies; government then chosen by designated prime minister and by the president. Ministers need not be members of the National Assembly but are responsible to it. The prime minister must be a Sunni Moslem. Current government appointed in October 1996
- Main political organisations: Kataeb Party (largest Christian party); National Liberal Party (Christian); National Bloc (Christian); Progressive Socialist Party (mainly Druze); Amal (Shia political organisation); Hizbollah (Party of God, militant Shia group)

Sources: Europa; EIU; Datastream/ICV

THE ECONOMY • by David Gardner, Middle East Editor

Growth begins to slow

An inability to control the budget deters productive investment

The Lebanese economy rebounded vigorously after the 1975-90 civil war, and in the past five years has been pulled along by a $60bn reconstruction drive aimed at reviving the country as a financial and services entrepot for the Middle East. But economic growth has started to run out of steam, while the government's build-up of debt and inability to control the budget is deterring productive investment.

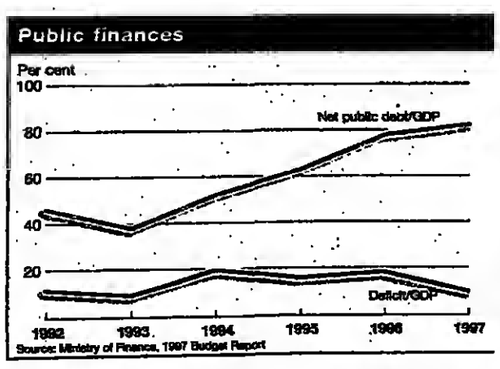
Growth averaging nearly 7 per cent of GDP a year in 1992-95 tailed off in 1996 to about 4 per cent. The 17-day Israeli bombardment of Lebanon in April last year contributed significantly to this slowdown. But ministers emphasised there was much to celebrate in the resilience of the economy's performance under fire.

The Lebanese pound held steady, the spread on the country's extant and subsequent eurobonds actually narrowed, and, most eloquent of all, capital repatriated by the Lebanese diaspora continued to flow in.

These inflows, vital to cover a trade deficit averaging over $6bn in each of the past three years as reconstruction forged ahead, have increased steadily. Gross capital inflows were $6.5bn in 1994, $6.7bn in 1995, and – in spite of the April war – rose to $7.3bn last year. This year they rose 26 per cent in the first half against 1996, to reach $3.9bn, giving a balance of payments surplus of $673m, compared to a surplus for the whole of last year of $786m.

At the same time, both the public and the private sectors have had little difficulty tapping international markets, even though four ratings agencies this year marked Lebanon at below investment grade, placing it below Egypt and Tunisia and on a par with Jordan and Brazil.

The government in particular has been able to achieve falling spreads and longer maturities. After three Eurobond issues in 1994-96 totalling $800m, the government in June successfully sold DM250m in D-Mark bearer bonds. These were all with maturities of three to five years. But in July it established a new benchmark with a $100m 10-year eurobond for Electricite du Liban.



The government of Prime Minister Rafiq al-Hariri has also had strong backing from international donors and the World Bank. The Friends of Lebanon donor conference held in the US at the end of last year – a device to drum up external support to speed reconstruction after Israel had vandalised new infrastructure that April – won pledges of soft loans and grants theoretically worth some $3.2bn.

Buoyed by these inflows, the government had predicted a return to 7 per cent growth in GDP this year. That has not happened. Despite official estimates ranging from 4 to 5 per cent for the first half, the latest quarterly economic report from the respected research department of Banque Audi puts real GDP growth at 3 per cent, down further on last year.

The Lebanese state lost control of its tax base during the civil war and matters have been slow to improve since. Every year, the budget deficit – calculated as a proportion of expenditure since accurate measures of national output are still not available – has exceeded the target by at least 10 percentage points. This year the target is 36 per cent, against 51 per cent in 1996; the finance ministry reckons that this would probably mean a deficit lowered from about 18 per cent of GDP to just under 10 per cent. But, in fact, the overshoot is running at about 55 per cent of budgeted expenditures.

This is pumping up public debt, which is now equivalent to 85 per cent of GDP against 38 per cent in 1993. The problem is not so much with the magnitude, to be expected in a country rebuilding after a war, but with the distribution of spending and money-raising.

First, the overwhelming majority of public spending is on wages and interest payments, while the cuts are falling on the capital budget. This slows reconstruction, which in any case only translates into the infrastructure which will speed investment after long lead times. As Fouad Siniora, the finance minister, complains: "If you're building a road, nothing is there, however much you spend on it, until you've finished the last kilometre and opened it for traffic."

Second, the government's cash needs, met in the main from domestic borrowing at high real interest rates – still around 12 per cent after significant recent falls – are crowding out productive private investment needed to speed growth. The state absorbs nearly half bank lending but provides only one-fifth of national output. The impressive capital inflows, needed though they are, have in these circumstances become part of the distortion.

Although some of these inflows are remittances to help perhaps one-third of Lebanese families on or near the poverty line, they have also helped widen the wealth gap. According to Kamal Hamdan at the Consultation and Research Institute, a think-tank which does work for the government and the World Bank, the share of interest in Lebanese GDP has more than doubled since the war ended.

The share of wages has plummeted: it is now about 33 per cent of GDP against around 50 per cent in industrialised countries. Moreover, the portion of the workforce on fixed incomes has risen from 50 to 70 per cent; the real increase in the minimum wage since 1990 has been 35 per cent against a more than doubling of GDP.

Mr Hariri is in a bind, at a critical moment before the lengthy work of reconstruction bears fruit. He says that a good part of the overspending is in answer to criticism that the government is ignoring social needs in pursuit of its ambition to create a regional financial centre. "This year we increased the wages of the public sector, especially for teachers. That alone is 5 percentage points [of the overshoot]. Increased health spending gives you three points more."

To get more money for social spending he recently attempted to get approval for $800m in new international bond issues, to be paid for by special taxes, including a 50 per cent increase in petrol prices. Late last month it was voted down by his own cabinet.

This is all rather paradoxical and dysfunctional for a traditionally open economy driven by a highly entrepreneurial private sector. Returns on private investment are high in Lebanon: Freddie Baz, chief economist at Banque Audi, calculates that total net profits in 1996 amounted to about one-third of all capital invested in 1992-96. But there is not enough private, productive investment. By contrast, there is inefficiency and a whiff of corruption about public spending, which exceeds its targets while endemic tax evasion ensures revenue forecasts are never met.

New taxes may be unavoidable. But in order to raise growth, keep reconstruction on track and make new levies politically acceptable, the government looks obliged to tighten its finances and crack down on waste and corruption.

RECONSTRUCTION • by Roula Khalaf

Finances raise concerns about fate of programme

Funding has shrunk as public debt and the budget deficit have spiralled

For the first time in more than two decades, traces of war are difficult to find in Beirut. As bulldozers churn along in the historical commercial district, where the infrastructure is scheduled for complete rehabilitation by 1998, the rest of the city has already undergone a facelift. There are new roads and luxury buildings, and restaurants opening almost by the day.

But as the Middle East peace process has faltered, Lebanon's growth rate has slowed, bringing down an already lacklustre rate of private investment, and Lebanon's public finances have deteriorated. There is rising concern in the city about the country's future and the fate of a reconstruction programme that many believed to be over-ambitious from the start.

The Council for Reconstruction and Development, the superministry which oversees the reconstruction, appears unnerved by the regional and domestic setbacks. But CDR officials speak of the $60bn project – running until 2007 and with about $18bn projected to come from public investment and the rest from the private sector – as a "framework," which allows them to be "flexible" in their approach to reconstruction and "dynamic" in the implementation.

The main setback to the reconstruction was the 17-day Israeli offensive in Lebanon in April 1996. This shook investment perceptions and slowed long-term commitments from the private sector. At the same time, as public debt has swelled and the government's budget deficit has spiralled, the contribution of the budget to reconstruction has shrunk – from 25 per cent of total budget expenditures in 1994 to about 6 per cent in the 1997 budget.

"The April 1996 aggression was difficult. Those who measured it only in physical damage were wrong," says Mr Nabil al Jisr, head of the CDR. Growth for 1996 fell to 4 per cent from more than 7 per cent the previous year. In the first half of this year, GDP is estimated to have grown by no more than 3 per cent.

In the first version of Horizon 2000, the original reconstruction plan, the economic model assumed that the budget deficit, now running at about 53 per cent of expenditures, would be bridged by 1999. A second version revised the date to 2003. And today, the CDR estimates the deficit will not be closed until 2007.

The plan assumes that growth will return to 7 per cent this year and next.

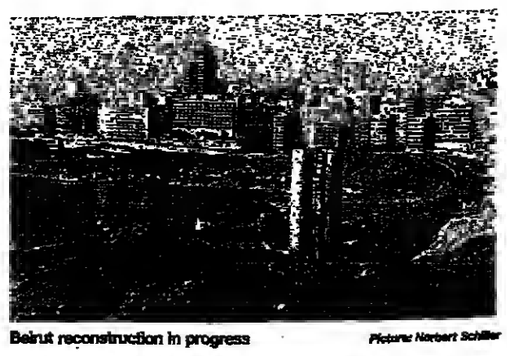
To compensate for lower domestic growth and investment, Rafiq Hariri, the prime minister, sought to capitalise on the 1996 Israeli aggression with an international campaign aimed at attracting foreign funds into the reconstruction programme. This led in late 1996 to a Friends of Lebanon conference in Washington, in which some $3.2bn was pledged by donors to finance projects over five years. Officials admit that most of the funds would probably have been pledged without the conference, bnt Friends of Lebanon cemented the commitments and the attention the forum gave Lebanon could also help attract private investment.

"Heavy investment has been delayed; what we have seen are investments into shops, restaurants and real estate," says one government official. But we don't have a problem because we will rely more and more on foreign financing."

The problem today is not so much the availability of foreign funds as the government's limited absorption capacity. Of $3.8bn of contracts awarded between 1992 and June 1997, nearly $1.6bn was from foreign sources. Another $2bn of foreign financing is now available.

"Our administration cannot manage things," says a government official. "Donors are concerned that the ministries are not able to take over the management of projects, so we cannot always draw on funds."

Mr al Jisr says that in eome cases the changes required by donors, such as demands for new institutions to manage projects, as well as very long ratification procedures for projects, are to blame for delays in drawing funds.



Beirut reconstruction in progress — Picture: Norbert Schiller

In an attempt to speed up reconstruction, the government has sought to move some planned public sector projects over to the private sector. In addition to Solidere, another $3.5bn out of the $18bn public investment programmed is expected to be taken up by the private sector.

The scale of Solidere's ambitions was established according to a plan that places Lebanon back as a regional financial centre where foreign companies set up shop to service the region. Because these ambitions are now increasingly being questioned – Lebanon's capital markets remain undeveloped and regional instability is an impediment to a significant Lebanese role in the Middle East – Solidere has pushed ahead with the first phase of its reconstruction, which officials say is tailored to the local economy. The size of the second phase of the project, they add, will be developed depending on regional developments.

Some of the largest, priority projects – such as the highway from Beirut to Damascus and the ring road aroond Beirut – need private investment. So does the Linord project, a $550m development of 2.4m sq m of coastal land just north of Beirut, where developers are being asked to finance a sewage collector and sewage treatment plant, rehabilitate a waste dump, and build a military coastguard harbour and fishing harbour, among other things. Companies that undertake to fulfil these requirements receive a proportion of the land developed under the project, which can be used for commercial, tourist or residential property. The framework of the project has already been changed once to make it more attractive to private investors.

Implementation of a toll-roads project which the government hopes will be built by the private sector has also been delayed. The council of ministers had grouped together three roads – the Beirut ring road, the Beirut-Damascus highway and a northern entrance road to Beirut – into a single project, divided it into two sections and awarded each section to a foreign contractor. But the deal collapsed while details were being negotiated with the CDR. CDR officials say financing could not he secured. Today, the three roads have been nade a single project and the government is looking for bidders.

As the government attempts to package projects in ways that appeal to private sector investors, there are nagging concerns in political and business circles in Beirut about the scale of reconstruction. These concerns are intensifying in light of the government's dire finances.

Although foreign debt is still only $2.2bn, or about 15 per cent of estimated gross domestic prodnct, the fact that total debt stands at more than 80 per cent of GDP leads many to suggest that a fundamental rethinking of the reconstruction project is required.

"We must rethink the size of reconstruction because of the deficit," says Kamal Hamdan, who runs the independent Consultation & Research Institute, "We can no longer hide that the plan is too ambitious and keep getting loans, which some day we will have to repay."

Mr Hamdan argues that infrastructure construction has bean given priority while industry and agriculture have been ignored – a fact that now appears to be recognised by the government. The govemment is also criticised for focusing on infrastructure while putting little emphasis on reforming institutions. "Sometimes a school is built for political considerations but not necessarily where it is needed or where there are teachers that can staff it," says one critic.

The average Lebanese has different concerns about reconstruction. Many see the Hariri plan as focusing on buildings et the expense of people. This is partly due to the fact that the building of social-related infrastructure such as schools and hospitals has not been completed yet, and has followed the first phase of basic infrastructure rebuilding. More significantly, the reconstruction effort has yet to bear fruit in terms of improvements in standards of living.

Mr Hamdan points out that the cost of importing equipment, the profits of foreign contractors and the fact that most workers are foreigners are such that reconstruction has a limited impact on the local economy.

Lebanese officials say the government had little choice but to start reconstruction with emphasis on basic infrastructure and on Beirut, the capital, all of which is key to attracting local and foreign private sector investment and generating growth.

Mr Hariri, who in his first years as prime minister appeared to promise more than the government can deliver, has now shifted gears. He, and other officials, now repeatedly emphasise the difficulties facing the country in its efforts to rebuild, and remind the Lebanese that they, after all, are still emerging from a long civil war and continue to face the threat of Israeli attacks.

"Coming out of a war, everything is a priority and we had to select priorities over other priorities," says Mr al Jisr. "Our first priority was ensuring security and rebuilding the basic infrastructure, electricity, water and telephones: these took up the bulk of our expenditures and they were all national projects."

Other regions sink deeper into poverty

The loud cries of a Shia cleric from the north-eastern town of Baalbeck this year focused attention in Lebanon on widening income disparities between various regions and the fact that while Beirut rises from the ashes, other areas, especially in northern Lebanon, appear to sink deeper into poverty, writes Roula Khalaf.

The Lebanese government has had no choice but to centre the reconstruction plan on Beirut in the early phases, an effort which officials believe is essential to attracting local and foreign private investment. But the voice of Sheikh Sobhi al Tufaili, a former secretary-general of Hizbollah, the Islamist movement, who launched a "hunger revolt" in Baalbeck this summer, touched a delicate nerve in a country where social deprivation and disparities among religious communities contributed significantly to the eruption of the civil war more than 20 years ago.

A decade ago, mainly Moslem southern Lebanon, home to a large Shia community, was thought to be among the most deprived of social, economic and human development. Today, it is areas in the north that attract the most attention. In addition to Baalbeck and neighbouring Hermel, they include Koura, Jubeil and Batroun. The towns are home to various religious sects, both Moslem and Christian.

The historical neglect for southern Lebanon, where the population faces repeated Israeli shelling, has been more seriously addressed in recent years. With Moslem communities, especially the Shias, gaining more political weight after the war, funds – to the tune of about $45m a year – have been allocated to the Council of the South, an institution set up in 1985. Kabalan Kabalan, head of the council, says he cannot complain: more than 90 per cent of southern villages now have access to electricity and water and 130 schools have been built.

The council's focus today is to channel development into the self-styled Israeli occupation zone. "Some towns take water from Israel, and we want to put an end to that and make sure they rely on Lebanon," says Mr Kabalan. The population, especially on the front line, is also helped by Hizbollah, which fights Israeli occupation and is financially backed by Iran.

Some argue that too much money has been spent on southern Lebanon and some of it badly wasted; others insist that much is still needed to redress the uneven level of development. In any event, the council's finances appear to be in as much trouble as the government's. It was recently revealed that the institution had racked up debts of $50m, which the government is scrambling to find ways to finance.

Although they have also been historically forgotten by Beirut, Baalbeck and Hermel, where the UN Development Programme estimates per capita income does not exceed $500, experienced happier days during the war. Then, the farmers did a brisk business producing hashish. When the Syrian and Lebanese governments decided to eradicate hashish production, they thought western countries, which had put pressure for eradication, would come up with funds to develop replacement crops. When this failed to materialise, the government could only contribnte e tiny fraction of the $300m the UNDP had estimated would be needed to develop the region. The farmers, who only a few years ago made close to $20,000 a year each, are losing patience with Beirut's promises and are threatening to return to illicit production.

Lebanon's Council for Development and Reconstruction says the impact of the reconstruction plan is starting to be felt outside Beirut, with access to electricity and water improving and rehabilitation or building of new schools and hospitals under way. But even the government admits that special funds will have to be allocated to improve living conditions in the poorest regions. However, where the funds will come from is unclear. Efforts by Rafiq Hariri, the prime minister, to raise international bonds and impose new taxes in part to finance development of these regions were recently shot down by Mr Hariri's own cabinet, even before they reached parliament.

CAPITAL MARKETS • by David Gardner

The slow pace of change

Lebanese need to become investment rather than commercial bankers

Beirut, the world has been told for five years, aspires to reclaim the role it had before the 1975-90 Lebanese civil war as the financial centre of the Middle East. Not as the money market centre it was – funnelling surplus petrodollars out to western financial markets – but as a more sophisticated capital market channelling resources back into the region, whose current and future investment requirements are vast.

Achieving this ambition will eventually require a regional peace settlement between Israel and its Arab neighbours. That is not in sight and is, in any case, outside Lebanese control. But it also demands a culture change among Lebanese bankers. In short, it requires them to become investment bankers rather than the cosy commercial bankere they now are, making fat profits by financing the government and lending short-term to finance long-term assets.

That is within Lebanese grasp, and there is some reason for believing this change will come abont, although progress towards developing the sort of capital market Lebanon wants has been slow. So slow, in fact, that the regional spotlight of international investors has switched improbably to Cairo, which is providing far more financial products to tempt them.

The long-awaited privatisation drive in the far bigger market of Egypt has seen capitalisation on the Cairo stock exchange donble to over $18bn in the last 18 months, with turnover tripling. Although the Beirut bourse reopened only two years ago, still only eight companies are listed (against 646 in Cairo); total capitalisation now exceeds $3bn, but two-thirds of this is accounted for by Solidere, the private company reconstructing the devastated business centre of Beirut.

Lebanese ministers and financiers say defensively that Egypt has 20 times Lebanon'e population, and that as a hitherto state-run economy it has a lot of assets to offload, whereas Lebanon has always been a free market. True, but largely beside the point.

The Egyptian investing public is a tiny fraction of its population, and Lebanon is looking to build a regional market in Beirut. More immediately, growth in the Cairo market is now being fuelled less by privatisation than by private companies going public for the first time. In Lebanon, by contrast, banks and companies are closely held by families and clans which replicate the country's political arrangements, and they have been slow to make the psychological leap of opening up their ownership.

"We would be blind not to see the interest in Egypt," acknowledges Freddie Baz chief economist at Banqne Audi. "Egypt is the etar." Yet Beirut is, at last, beginning to awaken.

Three banks, including Audi, have already listed and the central bank expects three more by year end. Given the predominance of services, especially financial services, in the Lebanese economy, it is both inevitable and desirable thet banks should lead the way.

"Banks are [at the top] of privately-owned and held companies in this country," says Nasser Saidi, deputy governor of the Banque du Liban. "The fact that the banks themselves feel comfortable means that they will encourage their clients."

Some economists and bankers suggest, however, that the high profits banks earn from their commercial lending may inhibit this. About one-third of the consolidated loans of commercial banks are revolving short-term credits to finance long-term business. This is in part because of the volatility of their deposit base: the average life of a deposit in 1996 was 43 days, creating the danger of a mis-match with long-term lending.

But the arrival of outside competitors offering longer-term instruments and the development of the bond market have been powerful spurs for the banks to reappraise their activities.

"Banks can no longer postpone their support for the relaunch of the capital market – even if it means forgoing some profits," says Mr Baz. "We are all aware that investment banking is the future."

The outsiders range from Flemings to the Middle East Capital Group, backed by the International Finance Corporation and BZW, the investment arm of Barclays Bank, while bond operations have been dominated by Lebanese financiers working for international firms such as Merrill Lynch. This diaspora of Lebanese scattered throughout the top-flight investment houses of the world is both a great plus and a healthy source of competition.

But it also gives Beirut an advantage over Cairo in that Beirut is better placed to originate as well as distribute products and to compete with foreign banks. Banque Audi, for instance, has recently "repatriated" 15 Lebanese executives from finance houses abroad.

A further spur towards creating a more comprehensive capital market has come from changes in the regulatory environment. Key measures last year allowed banks to float up to 30 per cent of their shares, and to manage fidnciary accounts on behalf of their clients.

> Beirut still urgently needs a local securities and exchange commission

Mr Saidi at the central bank says: "Commercial banking is the past; you can't compete with the highly capitalised Saudi and Gulf banks."

Indeed, Banque Audi lost out to a Saudi consortium led by Khaled bin Mahfouz, the majority shareholder of National Commercial Bank, the kingdom's largest, which secured the privatised Credit Libanais this year for $163m. But, Mr Saidi continues, "is there something you can be good at? Yes. You can start managing portfolios and proper mutual fund business", and indeed Islamic banking, which is fiduciary because it is at the risk of the client.

Beirut has still to complete its regulatory overhaul. While it has low personal and corporate tax, full currency convertibility, no capital controls and a wealth of support services and professions, it still lacks up-to-date laws governing mntual funds, brokerage dealing, and urgently needs a local securities and exchange commission.

As this falls into place, the expectation is that anything between 40 and 60 companies will list on the bourse, with construction, tourism, food and beverage and media companies following the banks. That alone, however, even with Lebanon'e own reconstruction needs of around $60bn, will not launch Beirut as a regional market. But, fortunately, it has potentially a deep and rich hinterland.

Initially, Syria, which will require Beirut'e help to develop a market economy, will give added dimension. Syria, says Mr Baz, "is a virgin market: they have only one bank serving 15 per cent of households". Eventually, both Iraq and a future Palestinian state will have high capital needs to reconstruct. Lehaneee entrepreneurs have already established strong links with oil-rich central Asia and Iran, with their substantial capital requirements.

More generally, a growing trend towards privatisation across the region will also pull in substantial capital. Lower oil prices in the Gulf should create a government debt market the Lebanese can tap into. And the region's infrastructure needs are huge. ABB, the electrical engineering multinational with over $5bn turnover in the region, reckons the Middle East will have to spend about $60bn on power generation and over $100bn on oil and gas development in the next decade. By most estimates, at least one-third of this will have to be privately financed.

"A comprehensive capital market in Lebanon will not come from volume on the Beirut bourse but from selling advice, financial engineering and lead-managing for other countries," says Mr Baz. "I see no reason why Arab funds should be managed out of London, Geneva and Paris," says Mr Saidi.

BANKING • by Roula Khalaf

Euphoria over securities masks several challenges

The biggest task ahead may prove to be building up a successful core business

The three bank stocks listed on the tiny Beirut stock exchange have been high fliers this year – their shares more than doubling in price – and about $700m of Lebanese bank eurobonds hava been snapped up by international investors since September 1996.

Marwan Ghandour is head of Lebanon Invest, a local financial intermediary which has helped some of the banks raise money. He says that if there are any concerns about Lebanon's banking sector, none appear to be reflected in traded securities.

"My only problem is that I have too much money that I don't know what to do with," he says.

But the euphoria over bank securities masks important challenges facing the sector. These are reflected in the mediocre ratings assigned by international rating agencies, and constrained by Lebanon's sovereign ceiling.

Although highly profitable and largely conservative, the banking sector is affected by the state of the economy and constrained by the dire state of Lebanon'a public finances.

In a hugely overbanked country – there are 80 banks for a population of about 3.5m – tha banks, whicb once put Lebanon on the world map as a financial centre, proved resilient during the civil war. But they emerged to fmd their focus had to be not on channelling Gulf petrodollars but on building a profitable local business.

However, with the government committed to a tight monetary policy, which has maintained the Lebanese pound's stability, the banks' business has been largely buying high-yielding Lebanese treasury bills and making handsome profits.

"About 50 per cent of our balance sheet is dormant," says one banker. "Our biggest challenge is to build up core business, but times have been too easy."

Interest rates on treasury bills have come down in the past year, and thus the spread earned by banks. The central bank has also waived the requirement that banks invest 40 per cent of their Lebanese pound deposits in T-bills. But banks continue to buy T-bills because, with a cost of funds for borrowers in Lebanese pounds at about 20 per cent, no one wants a loan in pounds.

Some banka, such as Byblos Banque, are building a business in consumer lending, a significant growth area for banks. Others, however, remain cautious on the grounds that credit worthiness of borrowers is difficult to assess in the absence of centralised credit information.

"Consumer lending is the future," saye Francois Basile, head of Byblos Banqne. "We work with people we know, and we are spreading out the risk."

More than half of the deposits in Lebanon's banking system are in dollars, and most of the lending is done in that currency. But even this is constrained by a 70 per cent limit imposed by the central bank, which cannot act as a lender of last resort in a foreign currency.

Some bankers argue that the limit is not conservative enough, and prefer to also stay liquid in dollars.

Although the public sector in Lebanon accounts for only 20 per cent of the economy, the state of its finances weighs heavily on the banking sector since it takes up nearly half of all financial resources of banks.

With a public deficit running at 53 per cent of expenditures and a debt burden accounting for 85 per cent of GDP, many bankers believe a devaluation of the Lebanese pound is inevitable.

"The banking sector is directly exposed to any deterioration in the government's financial position, since it is the banks which are the principal source of daficit fonding," aaya Moody'a in a recent report.

There is no currency mismatch on balance sheets, but devaluation would hurt banks' clients and thus indirectly affect the sector.

Moreover, if a devalnation becomes imminent – due, for example, to a political crisis – depositors will flee the pound and rush into dollars.

According to Moody's, this could raise the danger of a bank defanlt if demand to convert deposits became so great that customers began to hava doubts about the integrity of the banking system and started to also withdraw their dollars.

Banks are not as liquid in dollars, and about 65 per cent of their dollar deposits are in loans. And while deposits have an average life of 45 to 50 days, the loans' average life is 350 days.

This is what has led some banks to tap the eurobond market for medium-term loans, which can extend the maturity of their deposits.

Banks also face more atructural challenges. Making money today is becoming more difficult. In addition to lower interest rates on T-bills, banks have to face competition from foreign institutions which have returned to the market.

They are also competing for funds from new intermediaries auch as investment banks.

"It is starting to become a vicioue market," says Giel-Jan van der Tol, deputy country manager for ABN Amro Bank. All banks, says Mr van der Tol, are looking for assets to replace T-bills.

The advantage of foreign banks such as ABN Amro is the availability of a strong regional network and the ability to provide a wide range of services to clients, including inveatment banking and brokerage services.

"Foreign banks come in with a low cost baee, economies of acale and product diversification," says Marwan Barakat, bead of economic analysis unit at Banqne Andi. "We had a banking sector which had a monopoly over financial resources but now we have institutions doing investment banking as well. Lebanese banke are addressing these challenges by investing in investment banking departments, information technology and human resources."

The resulting pressure on spreads is leading banks to consider consolidation more seriously. The trend has started, with Banque Audi, for example, the country's third largest bank, acquiring this year Credit Commercial dn Moyen-Orient, wbose 1 per cent share of the market will be added to Audi's 7.5 per cent.

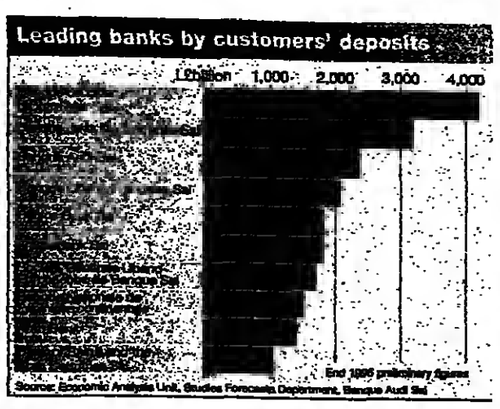
The central bank is pushing for consolidation and provides soft loans to assist in the purchase.

The pressure on small banks to ally themselves with larger ones also stems from the need to comply with an 8 per cent capital adequacy ratio. Bankers say the central bank is thinking of raising the ratio to 12 per cent.

Although all banks are within the 8 per cent ratio today, some small banks – most are family-owned – may not be able to maintain the ratio as their assets grow.

The Beirut stock market was seen as a main vehicle through which banks will raise capital, but only three banks are now listed on the bourse.

"Getting out of the family mentality has been slow," says one banker. "Banks continue to be very choosy about who their shareholders are."



LEBANON AND THE EU • by Roula Khalaf

An eye on the neighbours

Lebanon's negotiators seem to be reluctant to sign the pact with Europe

As far as the European Union is concerned, negotiations with Lebanon on a partnership agreement to create a free trade zone within 12 years have been completed. But for Lebanon, negotiations still have a long way to go.

Lebanese officials, dissatisfied with what Brussels has to offer, are stalling and waiting to see what neighbours such as Jordan and Egypt receive from the EU before signing thair own agreement. According to some European officials, Lebanon may also be waiting for Damascus, its power broker, to start its own formal negotiations. Syria is the only southern Mediterranean country in the EU-Mediterranean process not to have started talks.

If Lebanon is stalling, it is mainly because the prospect of signing a partnership agreement with the EU has made little impression on Lebanese decision-makers. Lebanon's economy is already open, with the state accounting for only 20 per cent of groes domestic product, and therefore the impetus for an agreement that speeds up economic reforms is limited.

Although $4.6bn of Lebanon'a $7bn of imports are from the EU, exports are limited. With its industry battered by 17 years of civil war and agricultural access to EU markets constrained according to the partnership agreement, the only prospect for increasing exports is for European and other foreign companies to set up shop in Lebanon and take advantage of the free zone to be created by the accord within 12 years.

But Lebanon knows that the prospects of European companies moving there are limited.

"I don't see a single European company coming here. All I see are delegation after delegation wanting to sell us their products" says Yassin Jaber, minister of the economy. "Going into a free trade agreement with the EU means we lose customs revenues, we get little aid and they say the Middle East peace situation is unstable so the European private sector won't come here. Europe is very protective on agriculture and they are superior in industry. So where is the gravy?"

The government considers that there are two main sticking points to be resolved before it can sign the partnership pact.

● First, it is demanding that Lebanon be given a long period of grace before it must dismantle tariffs. Customa duties account for about 50 per cent of government revennes and the bndget deficit is running at 53 per ceut of expenditure, against a 36 per cent target. The government is scrambling to find ways to raise revenues – but is finding the political consensus needed to impose new taxes is proving elusive, while tax evasion is rampant.

"We need time to move our revennes from custom duties to VAT," says Mr Yassin. "The two-year grace period offered by the EU is not enough."

Brussels says it takes Lebanon's concerns into consideration but loss of customs duties is a problem which is faced by all countries entering into EU accords. "We cannot accept a formal provision in the agreement abont this, but it will be taken into account," one European official said.

● Second is the amount of aid which Lebanon is to receive under the agreement. Tbe European-Mediterranean partnership includes a total of Ecu4.5bn in assistance over five years to be divided between the countries that aign the agreements.

But it sets countries competing against each other for the aid. What each country receives depends on the merits of projects presented and its application of the agreement.

Lebanon wants spacial treatmant. Nasser Saidi, vice-governor at the central bank, says Lebanon deserves to be looked at differently because its economy is already open. "The criteria for aid include population size, per capita income and how mnch economic adjustment you have to make," he says. "I don't think Lebanon should be punished because it has a liberal economic regime."

Lebanese officials say they have been told that the total EU aid Lebanon will receive over the next three years under the deal is Ecu100m, which they consider "peanuts." The EU, however, says no figure has been set. In any event, the Lebanese government wants aid to be tied to the size of the trade deficit.

"We want aid accounting for 3 per cent of the trade deficit with Europe and an additional 5 per cent of the trade deficit in the form of soft loans, every year," says Mr Jaber. This demand, according to one European official, is "wishful thinking."

While insisting that negotiations will pick up again, Lebanon is more interested in axpanding trade with Arab countries, the destination of most of its exports. Nearly 29 per cent of exports are to the United Arab Emirates, another 11 per cent to Saudi Arabia and more than 8 per cent to Syria.

Mr Jaber says the government is negotiating free trade agreements with Syria and Egypt but at the same time setting an agricultural agenda, which protects domestic agricultural products during peak periods of local production.

"We should not be narrow minded in our thinking. Lebanon's future is with the Arab world. And Arab investors are the ones who are investing in the country," says Mr Jaber.

Foreign investment. The prospects of European companies moving to Lebanon are limited

PROFILE Banque Audi

Aiming to lead the field

Banque Audi, Lebanon's third largest, is the most visible Lebanese bank outside the country.

Better known in the west for publishing reliable economic analysis of the Lebanese economy – a rarity in the country – in November 1995 it became the first Arab bank to tap international capital markets for equity.

Last year it listed 30 per cent of its shares on the Beirut stock exchange and issued a $100m five-year eurobond. The bank has just raised another $81m to a secondary GDR issue.

The equity boost is aimed at financing growth, much of it expected to come from acquisitions.

As a wave of consolidation is expected to lead to just a few banks dominating the market, Banque Audi is trying to secure a leading position.

According to Moody's, the credit rating agency, the bank wants to increase its market share by 1 per cent a year and believes that it has probably exhausted its ability to do this by organic growth.

The process was started in June with the acquisition of Credit Commercial du Moyen-Orient, which raised market share from 7.5 per cent to 8.5 per cent. Banque Audi had set its sights much higher, bidding for Credit Libanais, Lebanon's 10th largest bank. Credit Libanais was owned by the central bank and Banque Audi lost the bid to Saudi investors.

While Banque Audi appears aggressive in tapping international markets, at home it remains cautious. Like many of its peers, a large part of interest income comes from investing in Lebanese T-bills. In the first half of 1997, net profit reached L£17bn, from L£14.3bn in the corresponding period of 1996.

As the banking business becomes more competitive and margins on T-bills decline, Banque Audi has been seeking to compensate by expanding non-interest income – which reached 20 per cent of total financial income in the first half of 1997. This has been achieved through an investment banking arm, which accounts for 30 per cent of trading on the tiny Beirut stock exchange.

The bank is also looking to increase consumer lending, a largely untapped market in Lebanon. Residential mortgages account for only $20m out of total assets of $1.8bn. According to a report by Flemings, the bank has in the past restricted its mortgage lending only to known customers, such as employees of corporate clients.

Half of Banque Audi's deposits are in dollars, and dollar loans account for about 90 per cent of the total. To reinforce the quality of its capital, the bank keeps more than 40 per cent of its capital in dollars since about half its assets and liabilities are in that currency.

The ratio of loans to deposits has also been maintained at below 60 per cent, compared with a 70 per cent limit imposed by the central bank. Moreover, the $100m eurobond issue was not aimed at expanding its loan portfolio as much as extending the average life of its funding, from about 45 days to 170 days.

Roula Khalaf

RELATIONS WITH ISRAEL • by Judy Dempsey in Jerusalem

Israel stands firm but it is Syria which calls the shots

Israeli military is waiting for 'circumstances to change' in South Lebanon

Nearly 20 years after Israel first carved out e security zone in south Lebanon, and 12 years after withdrawing from the rest of the country following an ignominious defeat, the mood in Israel is slowly changing. But so far, the military establishment is standing firm.

At issue is how far Israeli public opinion will sustain casualties in south Lebanon which is increasingly viewed as Israel's Vietnam.

A debate has arisen precisely because of the mounting casuelties. Ieraeli Defence Forces lost 219 soldiers in the area between 1985 and the beginning of this year.

So far this year, e further 40 soldiers had died in Lebanon, not including the 73 servicemen killed last February when two transport helicopters ferrying them to Lebanon collided.

Most of the losses over the years have been a result of clashes with the Hizbollah, a Shia Moslem movement committed to pushing Israeli forces out of south Lebanon.

The debete over Israel's continuing presence in south Lebanon is not confined to e group of mothers who no longer want their sons to fight in what they see as a senseless and unwinnable war. Politicians from across the spectrum have added their voices to the debate, of whom the most notable, if not the most infamous, is Ariel Sharon, infrastructure minister in Benjamin Netanyahu's Likud coalition government.

As defence minister, Mr Sharon ordered the invasion of Lebanon in June 1982. The Kahan Commission, established to identify who was responsible for the massacre of at least 800 women, children and members of the Palestine Liberation Organisation in the Sabra and Shatila camps in September 1982, found that Mr Sharon and Rafael Eitan, former chief of staff, now agriculture minister, were indirectly responsible for the massacre.

Mr Sharon recently called for a unilateral withdrawal from Lebanon, implying it was impossible for Israel to continue accepting casualties, or defeat the Hizbollah. He was joined by Yossi Beilin, former Labour party deputy foreign minister.

Mr Beilin's view is that Israel could defend itself adequately from within its own borders, adding it would be preferable if some kind of international peace-keeping force could be located in south Lebanon.

Amid growing controversy over the IDF's role in south Lebanon, military sources insist – despite the calls for unilateral withdrawal – that there is no option for the moment but to maintain the status quo until Israel and Syria start peace negotiations.

"We know that politicians have to keep their ear to the ground when it comes to pnblic opinion," a defence ministry official says. "But unilateral withdrawal is not an option. It would create greater problems. And we would have to deal with south Lebanon in a more elaborate way. There are no short cuts."

The military believes that if it did unilaterally withdraw, the vacuum would be filled by Hizbollah, shifting the casualties from military personnel – which the IDF says it can sustain – to civilians living in northern Israel.

In addition, military officials – end Mr Netanyahu – say e withdrawal would be seen as e sign of weakness on the part of Israel.

"We want to maintain the status quo in south Lebanon. We do not want to escalate the fighting. We cannot afford to.

"Ultimately, it depends on Syria since Lebanon cannot act alone," said e defence official.

Syria, the defence ministry insists, and not Lebanon, is the country which dictates events in Lebanon.

Until Syria is prepared to return to the negotiating table with Israel, IDF forces have no intention of succumbing to domestic public opinion and unilaterally withdrawing.

But the issue is not as clear cut because e peace agreement between Israel and Syria is inextricably tied to Israel opening negotiations on the future of the Golan Heights, which Israel captured from Syria during the 1967 Six Day War and annexed in 1981.

The Israeli government has repeatedly said the Golan Heights is not negotiable, reversing the previous Labour party policy of trading land for peace. But earlier this month, Yitzhak Mordechai, the Israeli defence minister, said in an interview that he was "willing to reach a territorial compromise in the Golan".

He edded: "Syria has not yet begun to exhaust the political process."

His remarks contradicted reports by Amnon Lipkin-Shahak, chief of staff, who e day earlier said Syria was continuing to upgrade its offensive capebilities and was streamlining the activities thet would precede a military operation against Israel.

Clearly, there is not e consensus in the Israeli defence establishment about Syria's intentions.

There is consensus in the view that the role of Ms Madeleine Albright, US secretary of state, is increasingly important. Last month, Ms Albright held talks with President Hafez al-Assad of Syria.

Washington's interest in forging a peace treaty between Syria and Israel is tied as much to its interests in regional stability as it is to its gradual reassessment of its 'policy of containment' with Iran which backs the Hizbollah.

Isreeli military and defence analysts agree that Washington is looking at ways to restart Israeli-Syrian talks. But they are uncertain if it is possible for Washington - and Israel for that matter - to pursue two peace tracks at the same time.

"I think, for the moment, Washington is anxious to put the Israeli-Palestinian peace talks back on track for political reasons and then, depending on how those talks proceed, to work on the Syrian-Israeli peace talks," a defence ministry official said.

But getting the Israel-Palestinian peace talks back on track will be a slow process. In the meantime, there is always the fear of further Hizbollah attacks and the inevitable Israeli retaliations both of which will hit civilian targets.

If this fear is realised, public opinion could become more vocal, pressuring the Israeli government and the military establishment to look et other options.

"We are aware of that," a defence official says. "But for the moment, we are going nowhere. We have no other option. We are staying where we are [in south Lebanon] until circumstances change."

LEBANON AND SYRIA: THE POLITICS • by David Gardner

All eyes on proxy conflict

Recent conflict in the security zone has raised fears of a further trial of strength

The recent history of Lebanon is an object lesson against involving outside powers to resolve internal disputes. For about 25 years, the country has had its destiny sheped by powerful neighbours, who have used its sectarian divisions to fight out their own differences and press for regional edvantage.

As e consequence, Lebanon's prospects of rebuilding and recovering a modicum of sovereignty now depend on the progress of the proxy war being waged in the south of the country between Israel and Syria.

The 1975-90 civil war between and within the country's 17 communities ended with Israel in possession of the so-called "security zone" – a buffer in south Lebanon supposed to protect northern Israel, amounting to 12 per cent of Lebanese territory.

But the tribal warfare also left Syria in de facto control of the rest of Lebanon, exercised through 35,000 troops on the ground, e ubiquitous intelligence service, and the ebility to manipulate a fractious political class still drawn primarily from the ranks of the old warlords.

Damascus appears as the indispensable erbiter between these clan and sect leaders, and it will be difficult for younger, more forward-looking leeders to emerge and dislodge them as long as they help provide Syria with an alibi for being in Lebanon.

This sort of opportunist relatlonship between local factions and regional powers was rife during the civil war, with Saudi Arabia, Iraq, Libya and Iran, as well as Israel and Syria, leaping into the fray. But that opportunism has saddled the Lebanon witb e permanent mechanism of proxy warfare and no control over any of its levers.

The arena for this proxy war is the security zone, where Hizbollah, the Lebanese Shia Islamist movement, is fighting to end the Israeli occupation.

Hizbollah, inspired by Iran's Islamic revolution, came into being as e result of Israel's disestrons full-scale invasion of Lebanon in 1982.

Along with rival Shia forces, it drove the Israelis back to the south Lebanese enclave, in e rare victory for Arab arms achieved in part by the use of suicide bombers.

Flashpoint, April 1996 : Israeli tanks on the Israel-Lebanon border open fire on Hizbollah targets inside Lebanon *Pictures: AP*

A man and his mother run from shells falling on Sidon in August this year when six people were killed and 35 injured

While Syria imposed order and disarmed the other civil war militias, it left Hizbollah in the field as e reminder to Israel that there would be no peace in the region without the return to Syrian sovereignty of the Golan Heights, captured by Israeli forces in the 1967 Arab-Israeli war.

Israel was initially able to maintain control of the security zone through the South Lebanon Army (SLA), e mercenary force which it arms, pays and controls. Bnt a stream of defections from the SLA over the past two years has compromised Israeli intelligence and pushed Israeli troops into the front line.

In April last year, the Israeli government of Shimon Peres unleashed e 17-day air, land, and sea bombardment of south Lebanon and south Beirut, killing more than 200 civilians in an ettempt to force Lebanon and its Syrian overlord to pull back Hizbollah.

Insteed, Hizbolleh emerged from the conflict almost unscathed and politically strengthened, its prestige as a national resistance movement recognised across Lebanon's sectarian divisions.

Since then, Israeli troops have had to push deeper into Lebanon to try to stop Hizbollah infiltretion of the security zone. This has led to mounting Israeli casualties, has brought Israel into conflict with other Shia forces and the Lebanese army, and has aroused fears that this low-intensity war – the last ective bettle-front in the Arab-Isreeli conflict – will soon escalate into another trial of strength between Israel and Syria.

Last month, an elite Israeli commando unit sent to bomb targets 30km beyond the security zone was wiped out in e Hizbollah ambush. So far this year, Israel has lost 40 of its elite troops in Lebanon, while a further 73 were killed in February in e helicopter collision en route to an operation similar to last month's ill-fated raid.

In Israel, this has led to e cross-party debate about unilateral withdrawal from Lebanon. In Lebanon, the mood is one of defiance mixed with anxious anticipetion ebout how Israel will respond.

Sheikh Hassan Nasrallah, Hizbollah's leader, says he expects heavy reprisals for recent guerrilla successes. But in an interview with the FT last month he argued that Israel had "limited options".

"They may try to kill or ebduct our leaders – but they will always do that any time they have the opportunity," he said. Sheikh Nasrallah's predecessor as Hizbollah's secretary-general, Sheikh Abbas Musawi, was killed in 1992 with his family in an Israeli helicopter ambush. "There are no longer any Hizbollah training camps for them to attack," the Islamist leader aays, adding with some satisfaction that "it will be e high-risk adventure for them to leunch more commando raids" beyond the security zone.

Alternatively, he argues, Israel could launch e new bombardment, stepping up its constant air raids and artillery shelling. This would primarily hit civilians and "would not go unpunished," he warns. Finally, he says, Israel could try to broaden the conflict to include Syria – an option openly canvassed by Israeli hardliners in recent months.

"Any new action would not just target the Lebanese or Hizbollah but also Syrian forces, to try to change the whole Lebanese political equation and separate Syria from Lebanon," Sheikh Nasrallah maintains. The object would be to "impose e separate treaty on Lebanon" – a chimera Israel has been chasing since its first invesion of Lebanon in 1978.

Lebanon's prime minister, Rafiq al-Hariri, by contrast, thinks the recent escalation is an opportunity "for everyone to come back to tbe table" and "continue the negotiations." He reiterated and emphasised the word "continue" to reflect Syria's demands that its negotiations with Israel on the return of the Golan should resume exactly where they broke off just before last year's ascent to power in Israel of Benjamin Netanyahu at the head of a coalition determined to keep the Heights.

Prior to that, Yitzbak Rabin, the late Israeli premier, had agreed to give back the strategic plateau in exchange for full peace.

Mr Hariri believes on the one hand that the US, Israel's principal ally, will not sanction a new Israeli assault on Lebanon – as it did in April 1996 in the mistaken belief this would help Shimon Peres, the prime mover of Israel's peece camp, defeat Mr Netanyahu. On the other hand, he maintains that talk of withdrawal in Israel is bluff.

"I don't think they are serious," be said in an interview with the FT. "Every time they have e disaster, they talk about withdrawal." He warned that peace and security were indivisible and that Israel would not get security for its people without returning all occupied Arab land.

"They are trying to divide the undivideable," Mr Hariri said, "which will not guarantee the security of anyone."

Certainly, Israel's periodic ettempts to separate Lebanon and Syria have failed. They also lead to nervousness in Lebanon. The Maronite Christian community, the main losers of the Lebanese civil war, look to an Isreeli witbdrewal as e means of bringing pressure on Syria to pull back its troops.

This ettitude, fanned by exiled Maronite leaders, induces Damascus to regard Maronite agitation against Syria as fomented by Israel, opening the possibility of renewed internal conflict in Lebanon.

Cardinal Nasrallah Sfeir, the Maronite patriarch who has assumed de facto political leadership of his beleaguered community, says: "people say that if Syria withdraws, Lebanon will fall back into war. This is simply not true."

"For Lebanon, it is not very helpful for us to see Israel withdrew without Syria withdrawing too," the patriarcb argued. Yet the Syrians "have been eble to say that it is not reasonable for the friend to withdraw while the enemy stays here."

Fued Boutros, a retired Christian politician who was foreign minister in 1978 when the UN Security Council passed Resolution 425 celling for unconditional Israeli withdrawal from Lebanon, says that "the presence of Syrian troops is not something we should accept as definitive." He argues that "the circumstances of their withdrawal should be pondered and decided in a good faith and in agreement with the Syrians."

Israel has never deigned to recognise Resolution 425, but some Lebanese officials still believe that the attraction of putting Syria on the spot could alone prompt Israeli strategists to consider seriously a unilateral withdrawal. As one leading Lebanese political analyst puts it: "I think in tha end they will withdraw because it is the only way they have of creating a real problem for the Syrians." But even then, he believes Israel will first mount e big retaliatory operation egainst "the resistance" to remind Lebanon of what it is capable.

ECONOMIC RELATIONSHIP WITH SYRIA • by Roula Khalaf

Free trade... but not without cost

Lebanon is seeking to redress the economic imbalance

The Lebanese government's negotiations of a free trade accord with Syria dominate the country's politics. Rafiq Hariri, prime minister, has described strong economic relations with Lebanon's northern neighbour as "the first door" to a common Arab market.

But Lebanese businessmen wonder whether calling the result of current talks "free trade" is not a misnomer.

In 1991, Lebanon and Syria signed a treaty of "brotherhood, co-operation and co-ordination". However, the economic relationship between the two countries is uneven, largely due to the fact that Lebanon is an open market while Syria remains closed. Imports from Syria totalled ebout $235m in 1996, against $69m in exports.

Goods are also regularly smuggled between the countries and subsidised Syrian agricultural prodnce is often dumped on Lebanese markets, raising anxieties in political and business circles.

"We allow everything to come in so, of course, it comes in from Syria," says Yassin Jaber, minister of economy and commerce.

"But in Syria they don't allow some of our products, or anyone else's, to go in so there's a mismatch."

Mr Hariri's government has tried to balance the economic relationship. Officials say that some agricultural products will no longer be allowed into Lebanon during the peak periods of local prodnction. Businessmen argue that a free trade agreement is e step in the right direction but Syria's economic system may not allow the accord to be translated into practical economic terms.

In 1993, for example, Damascus agreed to cancel licensing for Lebanese imports, yet the government asked Lebanese exporters to tell it what they wanted to import, which effectively meant that the licensing process remained but became less official.

The Syrian-Lebanese economic relationship is complicated by the fact that about $2bn a year is drained from the Lebanese economy to Syria's benefit. The large part of this leaves the Lebanese economy through the estimated 1m Syrians who work in construction, agriculture and garbage collection in Lebanon.

Syrian workers are a sensitive political issue. Businessmen argue that they benefit the Lebanese economy by lowering the costs of construction.

"We cannot live without foreign workers," says Robert Dabbas, vice-president of the Lebanese chamber of commerce, industry and agriculture. "There are jobs that the Lebanese will not do. They will not work in a restaurant kitchen or a gas station, or in construction or agriculture."

But economists and political leaders opposed to the Syrian presence say companies make no effort to hire Lebanese workers. "It is not true that they won't work; companies should simply give them preference," says one economist.

In Lebanon, the political class is widely regarded to be benefiting from business opportunities, and this perception extends to the role of Syria in the country's economic affairs. There is a widespread belief in Beirut that contracts including Syrian partners are looked upon favourably, which leads some Lebanese to bring in Syrian backers.

While Lebanon at present pays an economic price for Syrian dominance, it may be able to make the loss up by exploiting the opening of the Syrian economy, which offers a market of 16m consumers.

"It's a negative situation but it's not as negative as it could be and there are political spillovers, which we cannot ignore," says one banker. "But maybe we will have our compensation when the Syrian economy opens."